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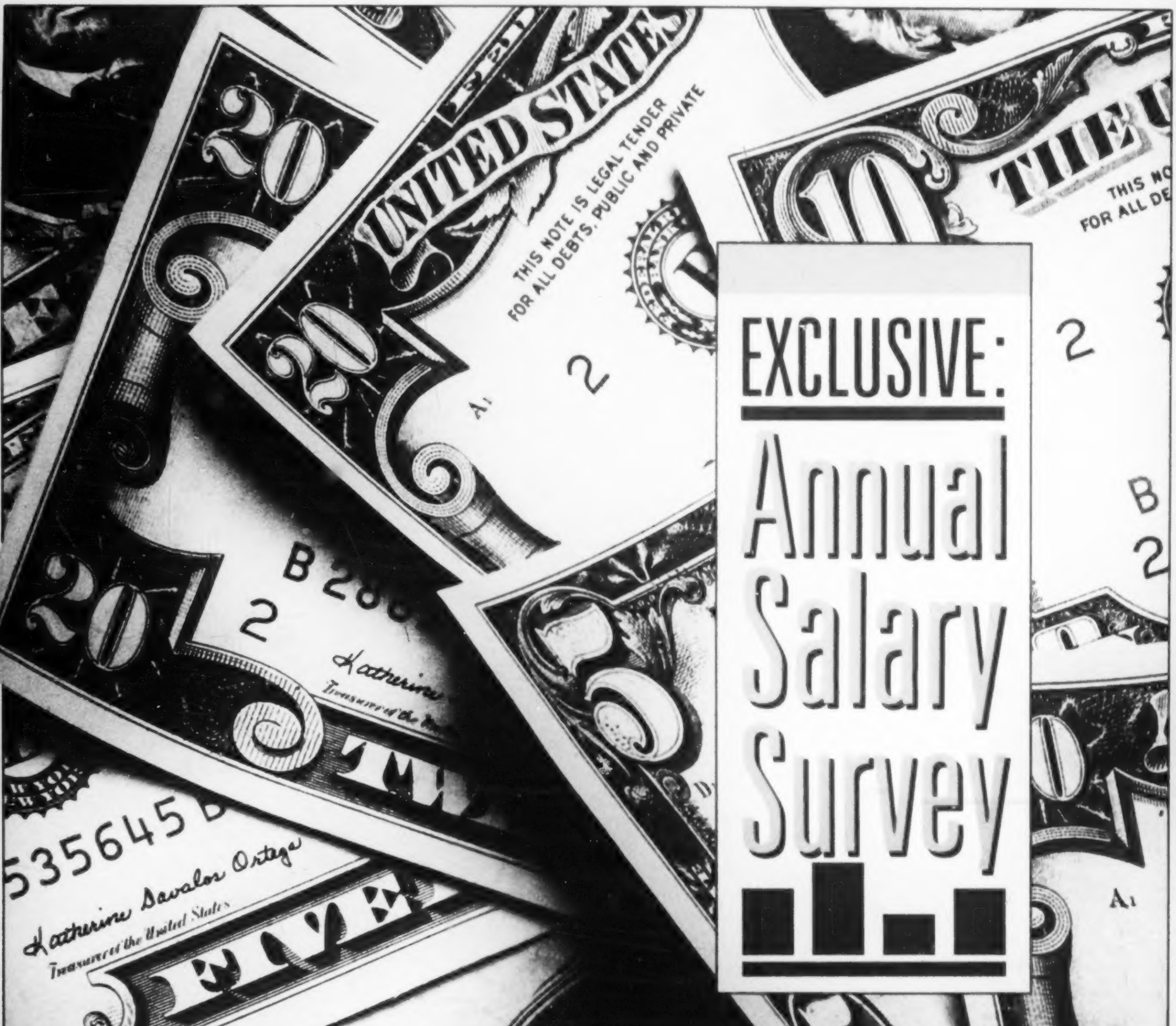
NOVEMBER 1989
A CAHNERS PUBLICATION

Industrial Distribution®

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

SPECIAL:

Power tool & hand tool SHOWCASE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EXCLUSIVE:

Annual Salary Survey

Industrial Distribution

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

VOL. 78, NO. 11 NOVEMBER 1989 A CAHNERS PUBLICATION

ID's exclusive survey reveals that there's more than money at the heart of distribution harmony.

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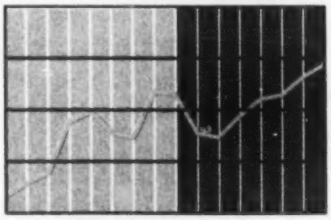

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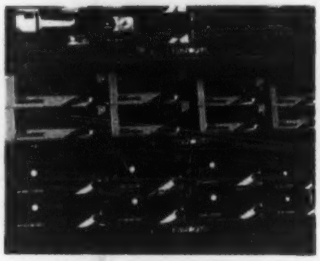

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Industrial Distribution

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INSIDE DISTRIBUTION

ID's annual salary survey

We expected a good response to our salary questionnaire which appeared in our June issue. But we didn't expect the deluge of mail that we received as questionnaires poured in to our Newton, MA headquarters from all parts of the country. A final tally showed nearly 900 people had taken the time to respond, the highest number of questionnaires ever returned for our annual survey. This response enabled us to develop a solid picture of salaries of various job categories within a distributorship: from chairman right to front counter salespeople. In preparation for the survey report (p. 43) ***ID*** editors sifted through the questionnaires to develop the following snapshot of the typical respondent.

Average Compensation— $64,266
Age— 44
Years of industrial distribution experience— 17
Years with present company— 12
Gender— Male 94%

In all, 48% of the respondents identified themselves as general line distributors, 41% as specialists and 11% as working in combination houses. The respondents averaged a 10.14% salary increase last year and more than 75% expect to receive a similar increase this year. And more than 60% of our respondents say they believe that distribution pays as much or more than other industries. In fact, 69% say they would encourage others to pursue a career in distribution. One statistic that stood out in our survey was that 11% of outside salespeople and 48% of inside salespeople report they receive no form of incentive compensation. This may be an area where distribution's top executives might take a second look. A Northeast distributor recently told us that he had instituted an incentive compensation plan for his inside salespeople. The result: their sales have skyrocketed. Instituting a similar plan in your business might also be as successful.

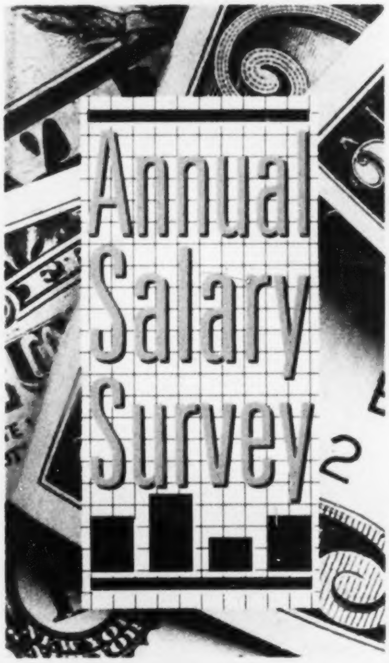
Also this month we present a special pull-out section on power tools, hand tools and accessories. This extensive supplement gives an overview of the market as well as describing how two distributors take different, but successful, approaches in selling power tools. We also provide a listing of power and hand tools manufacturers. Note that we now have a form on our reader service card for you to evaluate our editorial. Please take the time to fill out the card and return it to us. It will help us better evaluate your editorial needs. ☐

Jack Keough

Do You Earn What You Deserve?

Industrial Distribution's most comprehensive Salary Survey ever measures take home pay, benefits, and job satisfaction.

By John G.F. Bonnanzio, Associate Editor



How do you measure what you are worth to your employer? Or, for that matter, how can you be sure that you're keeping pace with owners and partners in other distributorships? While determining an employee's "value" to a company is, at best, an elusive proposition, until now, industrial distributors have lacked a basic compensation yardstick in which to measure themselves.

Although many surveys have been prepared in the past by both this publication as well as various trade associations, no previous effort has attempted to link a relationship among such variables as prior work experience, age, gender, job title, region, distributor sales size, type of distributorship, perks, compensation, benefits received (and benefits desired), as well as several measures on relative career satisfaction.

Presented here are some 600 pieces of data culled from the tens of thousands generated from the 1989 SALARY SURVEY. Questionnaires were distributed to over 42,000 of *ID*'s readers in our June 1989 issue. Of those, 882 responses were received, providing a margin of error of ±4%.

There are no fewer than 13 different ways for *ID*'s readers to compare their wages to an industry average. Which raises an important point: in most cases averages are presented in these charts when a statistical base is similar or large enough to warrant their use. In other cases, medians have been used, which indicates a statistical midpoint: half of all respondents will fall above and below a given number.

All of which leads us to the original question at hand—"Are you paid what you deserve?" Your employer might have a different view than you, but finally, *ID*'s readers (employers as well as employees), have some ammunition to back their claims.

Where the dollars are

Outside salespeople might take note that the company purchasing manager, who can enjoy staying out of the weather, earns nearly as much with more of the comforts. Likewise, the sales VP and company treasurer are on roughly equal footing.

COMPENSATION BY JOB TITLE

(1988 average)

Average **$64,266**	**Owner** **$109,897**	**CEO/Pres** **$114,904**	**Treasurer** **$62,587**	**VP Sales** **$59,465**
Purchasing Manager **$35,058**	**Ass't Sales Manager** **$43,572**	**Outside Salesperson** **$38,443**	**Inside Salesperson** **$28,869**	**Counter Sales** **$28,080**

Which region pays the best?

an industrial distributors find their pot o' gold by heading west? Perhaps, but first keep this in mind. Most respondents from the West are from California, where the cost of living is hardly competitive. So who's really better off? Probably the employees in the Midwest, where living expenses are not nearly so high.

REGIONAL COMPENSATION BY JOB TITLE

(1988 median in dollars)

Title	Owner	CEO	Treasurer	VP Sales	Purchasing Manager	Ass't Sales Manager	Outside Sales	Inside Sales	Counter Sales
New England	$100,000	$106,500	$46,000	$40,000	$32,000	$44,200	$32,000	$21,500	N.A.
Northeast	93,000	119,000	51,868	59,500	39,000	36,000	40,000	28,250	20,000
South Atlantic	90,850	76,000	51,000	50,000	30,200	36,500	39,500	23,000	26,000
South	117,000	71,500	48,000	54,000	27,975	33,000	40,000	31,000	22,000
Midwest	105,211	111,062	73,081	58,334	32,005	45,421	42,191	25,797	12,600
Central	76,500	N.A.	54,000	57,000	27,400	43,375	34,770	16,000	N.A.
Mountain	N.A.	70,000	32,560	58,000	35,000	29,900	N.A.	N.A.	N.A.
Southwest	104,250	104,000	50,500	36,100	25,750	45,000	29,815	26,600	N.A.
West	92,500	105,000	60,500	66,000	35,000	36,900	32,000	23,000	19,200
Median Total	91,700	101,350	56,000	54,000	31,000	39,000	36,100	23,280	21,000

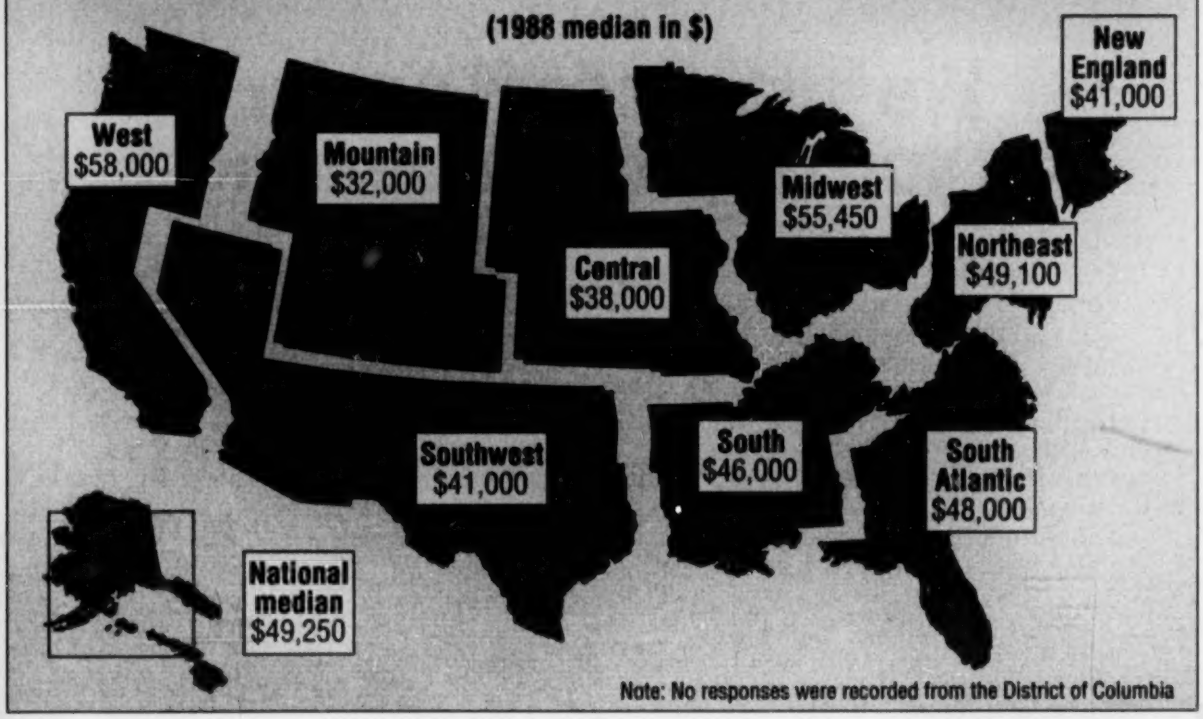
N.A. = Data not available.

Where you work counts

From region to region most salary ranges appear consistent, although the spread between more highly compensated employees to those with the lesser paying jobs is greater. In the Midwest, eight of nine job categories pay more than the national average, in the west, top management earns well above the norm.

WHICH REGION PAYS BEST?

(1988 median in $)



Note: No responses were recorded from the District of Columbia

Experience pays, to a point

At some levels of distribution, persistence appears to pay off until about 25 years into a career. After that time, our data indicates that most salaries start to head south, and so goes their commissions. Why? One possibility is that key people get to take it a bit easier. Another theory contends that older individuals tend to work at older, less innovative, and therefore less profitable companies. But then again, it's only a theory.

COMPENSATION BY EXPERIENCE

(average salary by years of distribution experience)

Experience in yrs.	3 or less	4–7	8–15	16–20	21–25	26–30	31–35	36 +
Average	$35,378	$39,845	$55,205	$71,863	$88,735	$76,749	$99,212	$76,739
Owner	78,500	111,000	112,303	96,787	115,060	104,568	148,133	97,662
CEO/Pres.	30,000	59,750	75,249	128,943	161,813	101,185	125,400	117,708
Treasurer	45,800	50,493	59,820	67,234	76,564	68,261	74,110	50,900
VP Sales	42,460	45,561	58,679	67,247	60,305	70,869	69,675	50,850
Purchasing Manager	40,367	24,561	35,200	38,029	29,875	43,450	39,750	57,971
Ass't Sales Manager	36,000	35,808	42,760	56,233	45,775	35,925	61,133	45,000
Outside Sales	30,990	33,670	37,339	44,332	46,761	50,369	40,000	30,125
Inside Sales	18,344	21,756	32,639	34,631	31,070	27,987	24,500	28,620
Counter Sales	12,000	12,600	24,200	N.A.	19,200	N.A.	N.A.	N.A.

N.A. = Data not available.

SALARY INCREASE BY JOB TITLE

(% range of last increase)

Range	Avg % increase	1-5%	6-10%	11-15%	16% +
% receiving increase	10.14	39	35	12	14
Owner	13.51	32	32	14	22
CEO/Pres.	11.11	25	44	16	15
Treasurer	10.23	28	43	16	13
VP Sales	10.15	33	39	16	12
Purchasing Mgr	8.10	55	23	10	12
Asst Sales Mgr	6.84	48	31	4	17
Outside Sales	9.81	43	25	13	19
Inside Sales	6.20	56	32	8	4
Counter Sales	4.67	78	22	–0–	–0–

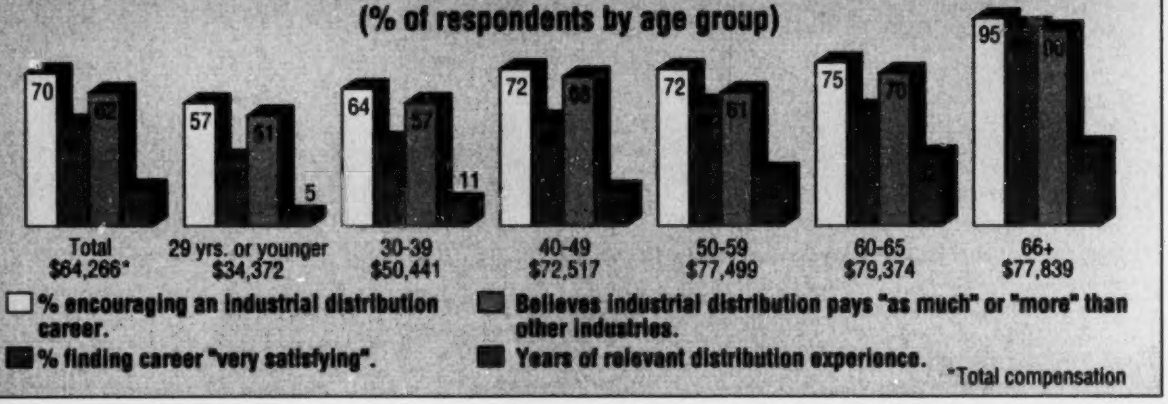
Staying ahead

While the average distributor received a 10.14% salary increase, owners took particularly good care of themselves, while purchasing managers and others all underperformed the average.

Age matters

Distributors do get older but, apparently they also get happier. The bad news, however, is that the average age is 50 before most people would rate their careers in distribution as "very satisfying."

CAREER ATTITUDE BY SALARY



COMPENSATION BY DISTRIBUTOR SALES SIZE

(dollar volume in millions)

Sales Size	< $1M	$1M-3M	$3-6M	$6-10	$10-20M	$20M+
Total	$37,750	$59,291	$63,320	$80,000	$68,450	$62,579
Owner	51,900	82,363	119,090	140,345	168,800	210,757
CEO/Pres	56,450	89,695	92,254	106,965	127,235	134,875
Treas	49,150	44,907	59,191	62,254	65,651	71,134
VP sales	36,750	43,060	53,327	59,156	64,536	77,393
Purchasing manager	28,750	33,036	31,824	36,840	42,209	38,352
Asst. Sales Mgr	N.A.	36,450	42,356	35,977	43,178	48,000
Outside sales	33,662	36,274	40,062	37,177	33,786	43,544
Inside sales	28,697	22,395	25,454	N.A.	29,126	28,175
Counter sales	N.A.	17,300	N.A.	20,000	N.A.	26,067

N.A. = Data not available.

For top jobs, bigger is better

Inside salespeople working for companies with annual sales of less than $1 million earn as much as those working for companies with sales above $20 million. However, when comparing those with more management responsibilities, the difference in earnings becomes much greater. Overall, the trend lines favor employees working for larger firms, even for counter salespeople.

COMPENSATION BY BUSINESS TYPE

(average salary in dollars)

Business type	Generalist	Specialist	Combination House
Total	$55,890	$71,886	$74,190
Owner	97,961	112,001	138,583
CEO/Pres	116,568	109,749	137,700
Treasurer	58,450	65,199	68,555
VP Sales	59,891	58,045	61,383
Purchasing Manager	32,562	35,953	42,744
Ass't Sales Manager	39,292	46,976	41,774
Outside Sales	38,061	38,504	44,764
Inside Sales	30,290	28,572	29,867
Counter Sales	31,025	20,000	12,600

Combo houses pay best

In most cases, it appears that working for a combination house, that is, those selling to non-industrial aftermarkets, is a more lucrative proposition than working for either a generalist or specialty distributor. One explanation: According to ***ID***'s *1988 Survey of Distributor Operation's*, combination houses enjoy the highest return on investment of the three groups.

HOW MEN & WOMEN COMPARE

Gender	Males	Females	Total
% survey respondents	94%	6%	—
Average Age	44	38	44
Years of distribution experience	18	11	17
Years with present company	13	9	12.5
People reporting to respondent	10	5	8
1988 compensation	$65,988	$36,902	$64,286
Last salary increase	10.10%	10.95%	10.14%
Receives incentive compensation	73%	57%	82%
Satisfied with compensation methodology	64%	58%	64%
"Very satisfied" with career	47%	48%	47%
"Somewhat satisfied" with career	39%	44%	39%
"Marginally satisfied" with career	11%	8%	11%
"Disappointed" with career	3%	-0-	3%

How men and women compare

A quick look at compensation shows a wide difference in remuneration between men and women in industrial distribution. But surface comparisons are unfair. First, only 6% of the SURVEY's respondents are women, who are younger, have far fewer years of industry-related experience and therefore, fewer individuals reporting directly to them. Second, men overwhelmingly hold management or sales positions, which are typically higher paying jobs. Nonetheless, women seem just as satisfied with their careers as men, and both enjoyed similar salary increases.

Perks: Not everyone gets them

The meek may one day inherit the earth, but it seems that if they work for an industrial distributor, it could be a long time coming before they own a stake in their employer's business. In examining the benefits provided to employees of industrial supply houses, there was little surprise that those individuals who earn the least, enjoy far fewer benefits than those who are more highly compensated. In terms of fringe benefits, distribution's employees receive the following benefits: profit sharing plan (52%); pension plan (42%); 401(k) (31%); or salary investment plan (13%).

The most common benefit offered to employees is life insurance (84%), followed by a company car and partially paid health (54%). Benefits most desired are: dental coverage (43%); 100% paid health (41%); pension plan (33%); and profit sharing (29%). The benefits below express the wide difference in perquisites received by distribution's most highly compensated employees (CEOs), least compensated employees (counter salespeople) and the industry's standard. As the average age of women in this SURVEY is 38, neither day care assistance or parental leave were rated as highly desirable benefits.

WHO GETS WHICH BENEFITS . . .

(% receiving benefits)

		Job function		Gender		Age					
	Average	CEO/Pres	Counter	Male	Female	29 or less	30-39	40-49	50-59	60-65	66+
Life insurance	84%	90%	84%	85%	85%	76%	87%	87%	85%	85%	70%
Partially paid health	54	35	82	54	58	65	61	55	40	54	30
Profit sharing	52	57	54	53	61	48	47	55	51	64	70
100% paid health	44	66	18	45	36	35	37	44	59	40	65
401(k)	32	24	8	31	32	31	34	33	28	33	15

. . . AND WHO WANTS WHAT

(% wanting benefits)

		Job function		Gender		Age					
	Average	CEO/Pres	Counter	Male	Female	29 or less	30-39	40-49	50-59	60-65	66+
Dental plan	43%	35%	67%	44%	43%	56%	40%	37%	30%	43%	18%
100% paid health	41	11	78	41	47	32	32	28	31	34	18
Profit sharing	29	11	44	30	30	32	32	28	31	34	18
Day care assistance	17	5	44	16	28	27	27	11	6	14	18
Parental leave	10	6	33	10	13	18	14	8	4	12	9

How distribution pays its salespeople

The percentage of distribution's employees engaged in sales but receiving no incentive compensation is one of the most important findings of this SURVEY. Although the vast majority of outside salespeople are dependent on one of several forms of commission, 48% of inside salespeople and 60% of those selling at the counter are not provided with performance incentives. Unfortunately, there is no data indicating how long these individuals stay with their employers.

TYPE OF COMPENSATION BY JOB TITLE

(% receiving incentive compensation*)

Job Function	VP Sales	Ass't Sales Manager	Outside Sales	Inside Sales	Counter Sales
Individual sales volume performance	23	8	46	28	20
Company or branch sales volume performance	34	36	6	10	20
Individual profitability	7	12	33	9	0
Company or branch profitability	37	33	8	17	30
No incentive compensation	25	23	11	48	60

*Totals do not equal 100% due to multiple responses.

How distributors like their work

As one might expect, the more an employee earns, the greater their job satisfaction. Although the vast majority of individuals are satisfied with the method used to determine their compensation, relatively few believe that distribution pays more than other industries.

When career satisfaction is measured by job title, vast differences emerge. While owners and CEOs are the most enthusiastic about their careers, inside and counter salespeople seem somewhat disenchanted, although most would encourage others into the industry.

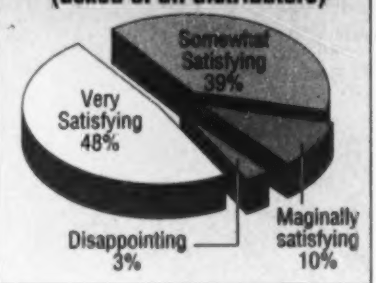
CAREER SATISFACTION BY COMPENSATION

(% of respondents)

Salary	Less than $30K	40	50	60	70	80	100	125	175	>175
Very satisfied with career	22	33	48	46	55	58	62	71	75	76
Would encourage others to pursue a career in distribution	47	60	71	74	74	81	88	86	77	81
Believes distribution pays more than other industries	4	8	10	19	16	28	21	21	26	45
Satisfied with method used to figure compensation	32	49	60	68	71	81	86	92	97	88

HOW SATISFYING IS YOUR CAREER?

(asked of all distributors)

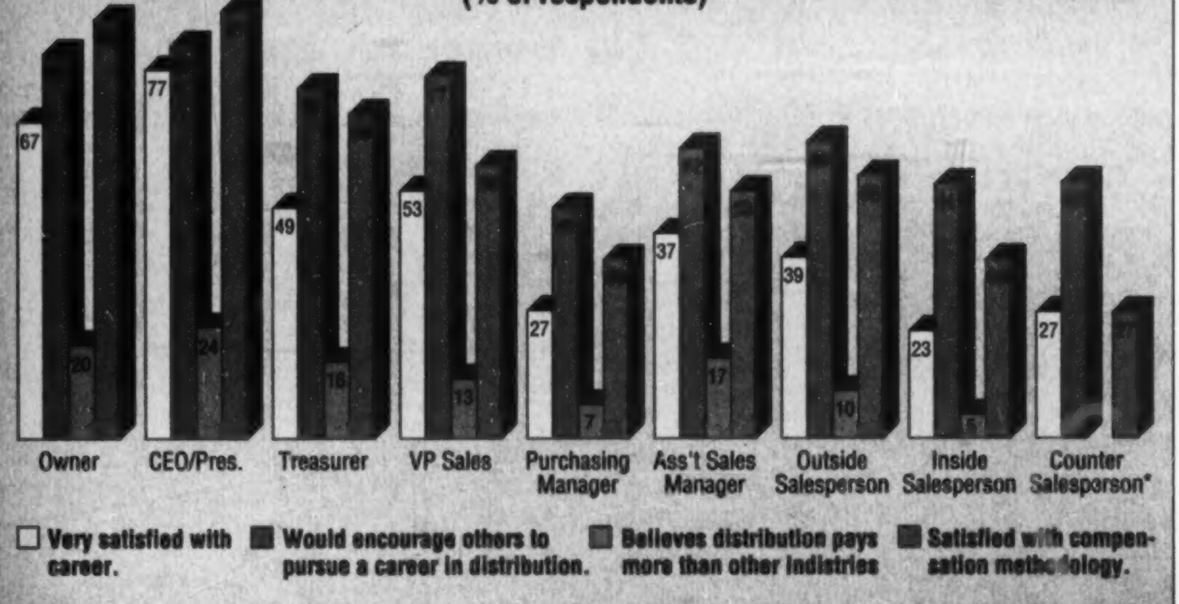


Measuring attitude by responsibility

The chart below measures the relationship between job function and an employee's view of industrial distribution as a career. As can be readily seen, workers with fewer responsibilities than those with the greatest responsibilities, are far less satisfied with their careers and are less likely to encourage others to pursue a career in industrial distribution. Irregardless of salary, only a small percentage of distributors believe that their industry pays more than others and, not surprisingly, there are dramatic differences in how satisfied employees are with the method used to determine their compensation.

VIEW OF DISTRIBUTION CAREER BY JOB TITLE

(% of respondents)



*No respondent thought distribution pays more than other industries

Industrial distribution's best paid executive

Although this year's SALARY SURVEY was kept completely confidential (no names were asked, and no names were provided), the age of computers allows data crunchers to examine respondents' surveys in some marvelous ways. What we asked our computer to provide was a profile of industrial distribution's most highly compensated executive. Again, without being able to tell *ID* who this individual is, we thought it permissible to share with you the following details:

1) When asked which job title best described his or her overall responsibilities, there was some surprise. The respondent is not an owner, but rather a company CEO/president.

2) Not surprisingly, respondent #475 in our database also runs a rather large distributorship. Estimated annual sales? Somewhere over $20 million.

3) Although our computer can tell us where industrial distributors' best paid executive is employed, we think this data would provide too much of a clue, and that wouldn't be fair. So let's just say somewhere east of the Mississippi, north of the Mason-Dixon line.

4) Age is always a personal matter, even for Respondent #475. But hey, who could it hurt? Age 48 and presumably counting.

5) By the way, before we go any further, did we already say if we're talking about a man or a woman? The answer is "male," and he runs a general line distributorship, has 24 years experience in the business, and has been with his present company for nearly two decades.

> **Respondent #475 earns more than seven times the average CEO, and apparently likes his (her?) job a lot.**

6) What else can we share. Well, Mr. 475 (as we may now call him), obviously works from his company's headquarter location, believes that the field of industrial distribution pays more than other industries, would encourage others to pursue a career in distribution, received no salary increase last year, but expects a 10% raise in 1990.

7) But a 10% raise on what, you ask? Mr. 475 reports earning $150,000 in salary last year, as well as a staggering $700,000 bonus. Not to be overlooked were some other ancillary benefits (perhaps membership in an HMO), bringing his total compensation to $860,000. How can we be sure Mr. 475 is telling us the truth. There are no guarantees of course, but his profile is remarkably consistent with other respondents with earnings in the same neighborhood. And with nearly 900 Survey respondents, one, or even a few outrageous responses would bear little statistical significance to the results.

8) By the way, question number 20 of the Salary Survey asked our respondent, "How satisfying is your career?" Any guesses what he said?

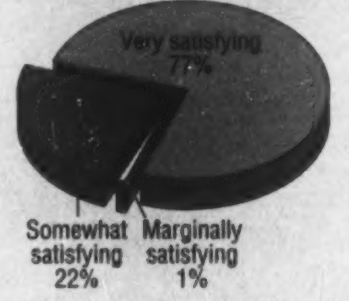
Salaries rise for distribution's top dogs

Distributors may complain of eroding markets and shrinking margins, but data obtained from this year's SALARY SURVEY profiles a CEO president whose annual total compensation in 1988 was nearly twice that of the industry's typical employee. Eighty-three individuals identifying themselves as either a company's CEO or president enjoyed an average compensation of $114,804. On the low side, 19% earned less than $60,000; 35% earned between $60,000 and $99,999; 34% between $100,000 and $174,999 and; 12% earned $175,000 or more.

The profile of the typical CEO/president to emerge from the SURVEY is a 51 year old male with 23 years experience in distribution; 19 of those years have been with his present company. Seventy-two percent believe that the distribution business pays as much or the same as other industries, while 28% believe that it pays less. Notwithstanding, 91% are satisfied with the method used to determine their compensation, although a surprising 31% indicate that they receive no incentive compensation. For a mere 1% of CEO/presidents, their compensation is based on individual sales volume performance; company or branch sales volume performance (9%); individual profitability (1%); company or branch profitability (61%).

CEOs LIKE THEIR JOBS

(how satisfying is your career?)



"Dissapointed" was not selected by any respondent.

While *ID's SURVEY OF DISTRIBUTOR OPERATIONS* indicated that sales rose by 8.8% nationally last year, CEO/presidents received an 11.1% raise—second only to owners who improved their wages 13.5% against an industry average of 10.2%. In comparison, the average counter salesperson (who is least compensated among all SURVEY respondents at $28,000), experienced a 5.0% salary increase during 1988. When the CEO/president was asked if they would encourage others to have a career in industrial distribution, 83% replied "yes."

MARKET REPORT

A Year of Robust Sales

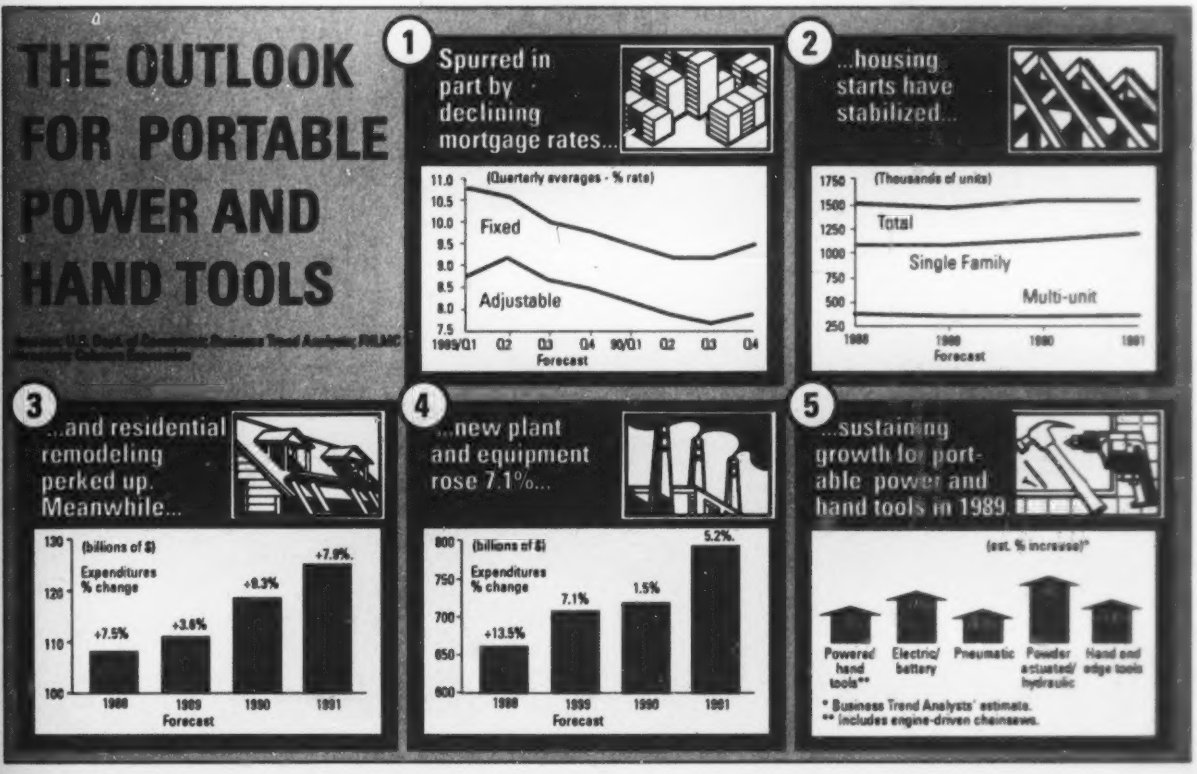
By John G.F. Bonnanzio, Associate Editor

First, listen to the way manufacturers describe 1989's selling season—From Dennis Means of the Wright Tool Company: "the best year in 60 years;" From Mike Convey of Black and Decker: "substantial double-digit growth;" And from Mike Schmidt of Milwaukee Electric Tools: "1988 was a record year, as will be 1989 and 1990."

And others report similar activity. Says Pat Griffin, Makita U.S.A.'s VP of marketing, "So far we're not at forecast, but then again, we had a pretty good forecast." Griffin notes that his company's sales of power tools and accessories "has grown across the board" with 1989's sales likely to finish ahead of last year's mark in the 12% real growth range.

Although there isn't reason to doubt manufacturers' claims of robust sales, some industrial distributors were quick to observe that much of the sales action has managed to elude them for a wide variety of reasons. For H.J. Bailey of Builders Equipment Co. in Decatur, GA, the problem has been one of over-building during the 1980s. Because of this, he expects his sales to slide between 5% and 10% this year. But such is the nature of distributors supplying product to the regional construction trades, as that business turns its inventory on the cyclical over- and under-supply of housing and commercial construction stock.

Assuming that distributor's sales have not matched the performance of their suppliers (a conclusion which is based solely on telephone conver-


THE OUTLOOK FOR PORTABLE POWER AND HAND TOOLS

sations—and not data—with supply houses and manufacturers alike), one can reasonably make the following assumptions: 1. Some portion of domestic manufacturing's output of power and hand tools is being shipped abroad for export trade and; 2. The supply of product reaching the end user is by-passing the traditional industrial/construction distribution channel.

In fact, data does support the first premise about expanding export trade, a positive development welcomed by manufacturers and one that should be cheered by distributors. According to Dept. of Commerce estimates, American manufacturers of power-driven hand tools will ship $2.2 billion worth of products during 1989 (60% of which are engine-driven chain, concrete and cut-off saws). Since 1987, imports have risen less than 5% annually from $868 million to $954 million in 1989. However, at the same time, exports increased 33% from $343 million to $516 million. So while manufacturers can proudly boast of skyrocketing sales, it would appear that an increasing proportion of their products are not being purchased domestically.

As for the second assumption, that more of the power and hand tool market is being sold through alternative, or non-professional distribution channels, that's the grist for a hot debate. On the hand tool side, most would agree that the industrial and construction distributor has far fewer problems with the mass merchandisers and catalog houses than do suppliers of powered hand tools. Even so, says Rick Bodenschatz, the national sales manager for Swedish-based BAHCO Tools, "There is an upgrade going on within the DIY market."

And is there ever. Although some manufacturers treat this purchasing shift by marketing different products and product lines to different end users, just as many have responded to this change by placing their products on the mass merchants' shelves.

And who could really blame them? Most sources contacted for this article privately admitted that the DIY market is now the fastest growing segment among purchasers of power and hand tools. At the same time, says L. Storm Bailey, Skil Corp.'s VP of sales and product services, "the traditional industrial distributor has found his market eroding from all sides."

The year ahead looks good

Distributors of power tools and hand tools can expect a reasonably good year for sales in 1990, providing the following occurs: 1) Mortgage rates remain relatively low prompting new housing construction and remodeling; 2) The value of the dollar remains weak, sustaining export trade and thus new plant and equipment investments; 3) Advances continue to be made in cordless power tool technology, which is the fastest growing sector of the tool market and; 3) DIYers and professional construction workers continue to purchase cordless tools for what are essentially redundant to the corded products already owned.

As the chart on the previous page illustrates, the outlook for portable power and hand tools looks positive for 1990 as the most important indices for the construction trades and industrial markets all point in the right direction. Although new home construction is an important part of the construction distributor's customer base, residential remodeling is expected to have the most long-term opportunity as the rate of new housing starts begin to slow.

While residential remodeling expenditures will only increase 3.6% this year, Cahners Economics forecast a rise of 9.3% in expenditures in 1990 to $114.4 billion, and a 7.9% increase in 1991 to $123.5 billion. Of the three areas that comprise the remodeling market, construction growth is believed to expand as follows during 1990: maintenance and repairs (+7.4%); additions and alterations (+15.1%) and; major replacement (+17.2%).

In response to this erosion, explains Bailey, general line distributors "reached out to a new customer" with portable electric power tools, and found themselves in competition with the general contractor supply house. "Whereas they were once unique in carrying many lines," says Bailey, "they now have lots of nontraditional competition from companies marketing their products to anyone who'll buy them."

Concedes William Grebe, president of Brock Tool of Maryland (whose company is a member of the construction-oriented Evergreen Marketing Group), "In some areas a Builders' Square may be driving margins down for the distributor." Adds Milwaukee's Schmidt, "We can't assume that professionals only shop from the professional distributor."

NEW KID ON THE BLOCK

While distributors have always faced competition to some extent from lumber yards, HVAC suppliers, auto suppliers and the like, the large mass merchants are still relative newcomers when it comes to competing for distributor's sales. What everyone will admit they do well, and that most distributors don't, is "merchandise" their products in every sense of the word.

Says Robert Cannon, Channellock, Inc.'s VP of sales, "Some of the methods used to sell tools have changed. Merchandising of products is more important all the time." In fact, chains such as Builders' Square, Home Depot, and Grossman's have built their empires on the notion of reaching out to customers through POP displays, circulars, radio advertising, specials, and perhaps most importantly, late night hours and weekend store openings. Confirms a recent Business Trend Analysts report, "With the substantial growth in the do-it-yourself market, advertising and promotion now play a significant role in the fight for market share."

But now, even the mass merchants have something new to worry about, and its name is Sears. Touting itself from coast to coast as the "Brand Central," Sears, Roebuck & Co., with its considerable purchasing power, formidable advertising budget, unparalleled name recognition, and shear determination to get itself out of a hole, has begun to sell name brand power and hand tools alongside its Craftsman line of tools. Says Michael Loftus, VP of marketing for Klein Tools Inc., "Sears is a competitor for anyone in the hand tool business."

And the same might be said for distributors of power tools. Although the Robert Bosch Power Tool Corp. "only sells industrial grade products through the industrial, independent distributor," says Louis Signorelli, the company's senior VP, distributors can ill afford to ignore the advent of the big chains. "It's a question," he says, "of whether they're recognizing a Sears, Roebuck as a competitor or not."

Still others take a more sanguine view of the mass merchants' threat, providing the distributor takes all of the precautionary measures. This would, of course, include carrying the right line of power and hand tools. "Everybody has margin pressures," says Rene Donars, Porter-Cable Corp's. VP of marketing, "but if the distributor is faced with the presence of a Builders' Square, he has got to differentiate his business using value added."

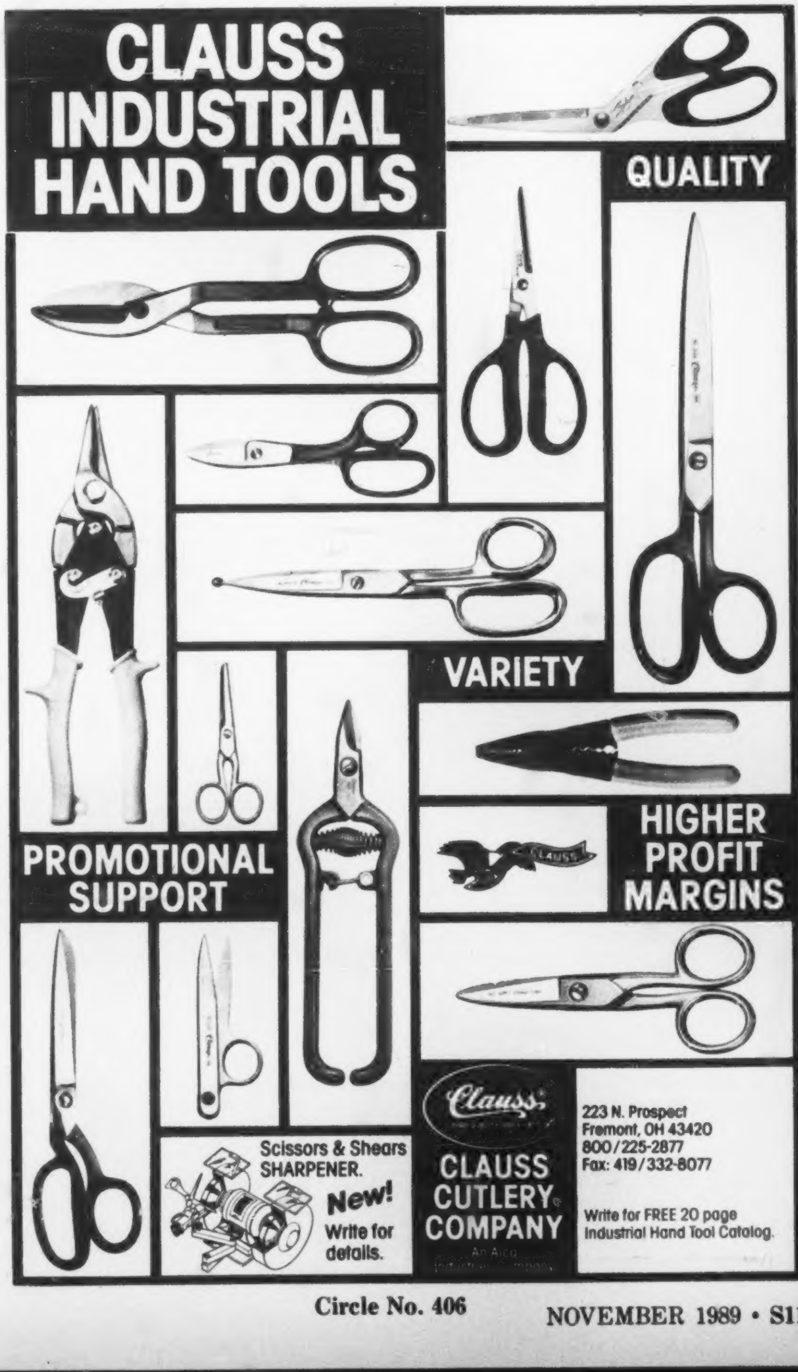
At Construction Tool and Supply in Phoenix, (AZ), company vice president Vince Ferguson says that his company's entire business is built around the concept of value added service. "We like selling to the contractors" he says, "because we know we can provide them with the service that they require." And naturally, those services allow the distributor to charge a premium and boost their margins. At the same time, some manufacturers are advising that distributors should not be bashful about their prices, as long as they're providing something tangible in return.

"What the distributor really needs to do is to stand-up and say 'we have a higher price, but this is what you get for it,' " declares John Boyd, general manager & VP for the AEG Power Tool Corp. But this is a declaration made more easily by companies purposely marketing their products as higher-grade and, therefore, higher priced. Although many other manufacturers maintain that they only sell industrial grade products, Black & Decker Inc. makes no such claims, and instead proudly markets its various lines as it sees fit. Says Mike Convey, the company's VP of sales, "today many people cross over to the consumer markets, and this has been a challenge to the industrial distributor."

When Black and Decker began to segment its product line in 1986, some doubted their ability to build a reputation for durability and quality on the professional side, while simultaneously appealing to the lower-priced DIY market. Three short years later, the company boasts of its success. "For 12 running quarters," reports Convey, "we've experienced substantial double-digit growth and," he adds, "I've heard countless times that Black and Decker is the most profitable line for distributors to carry."

Whether it is or not, only distributors can really say with certainty, while other manufacturers will just as certainly argue whose line provides the highest gross margins. Observes Makita's Griffin, "Power tools are a rough and tumble market. They're a strong draw for customers, and to a man," he says, "it's like a kid in a candy store."

But while today's "kids" are increasingly sophisticated, they can nonetheless be attracted to flashy displays and competitive prices. Warns marketing manager Jim Ippolito of Ryobi America Corp., "Brand loyalty goes right out the window when it comes to price," adding, "the age of distributing through one channel is over." But the age of selling, marketing and merchandising service is not. And as most would agree, that's the distributor's best promise for successfully competing in this market. ☐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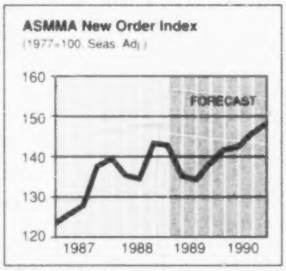
BY KRIS BLEDOWSKI

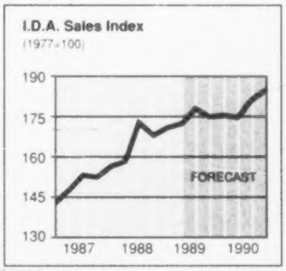
Construction markets weaken

Upturn not expected until 1991

Construction showed a surprisingly strong performance during the first quarter of this year. While growth had been slowing during 1987 and 1988, first quarter new construction spending, adjusted for inflation, was up 3.9% compared to its first-quarter 1988 level. Our preliminary second quarter figures paint a much bleaker picture, however. Total new construction expenditures rose at an annual rate of only 0.7% in July to an annual rate of $353.3 billion. Our forecast calls for flat remaining quarters. Commercial, industrial and institutional construction rose 2.9% at an annual rate in July. The next two years are expected to bring little growth in industrial building beyond increases in inflation. The upturn, which in the first quarter figures was caused by a healthy overall economy, is going to taper off.


ASMMA New Order Index
(1977=100, Seas. Adj.)

Data source: ASMMA
Forecast source: Cahners Economics

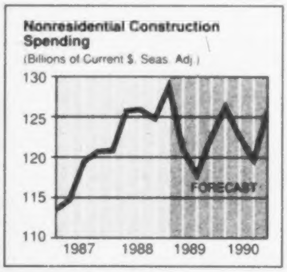

I.D.A. Sales Index
(1977=100)

Data source: I.D.A.
Forecast source: Cahners Economics

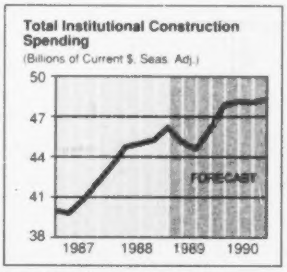
Recently, all three construction sectors (residential, nonresidential and nonbuilding), have exhibited well-defined business cycle patterns. Housing starts, which usually lead the economy, recorded the maximum growth rate in mid-1986 and the lowest in early 1988. Nonresidential and heavy construction, which have later cycles, should experience declining spending levels through mid-1991. In the case of heavy construction, a strong expansion may not start until early 1992.

Top construction markets in 1990 will be concentrated in the West. Revived economic growth is showing up in strong residential and nonresidential markets in California which will account for four of the top ten nonresidential construction markets. In some key Sun Belt markets, such as Dallas, Houston and Atlanta, construction activity has peaked, but reconstruction activity is on the rise.

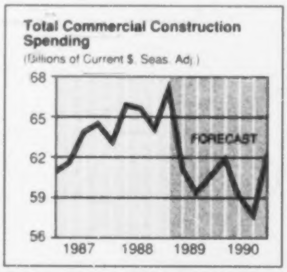
What this means for industrial distributors serving the construction industry is lean times ahead. Output of hardware and tools has been flat in the first quarter, although there was a slight uptick in the second quarter. Our forecast calls for a 1.0% growth this year and 6.5% gain in 1990, just in time for the building expansion in 1991. Industrial distributors should ideally target other end markets which are expected to stay strong. ☐


Nonresidential Construction Spending
(Billions of Current $, Seas. Adj.)

Data source: Commerce Department
Forecast source: Cahners Economics


Total Institutional Construction Spending
(Billions of Current $, Seas. Adj.)

Data source: Commerce Department
Forecast source: Cahners Economics


Total Commercial Construction Spending
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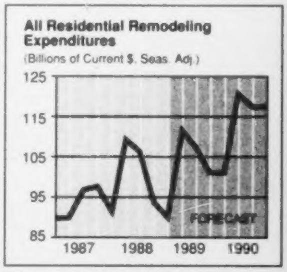

All Residential Remodeling Expenditures
(Billions of Current $, Seas. Adj.)

Data source: Commerce Department
Forecast source: Cahners Economics

	SALES			RECEIVABLES	INVENTORY
(1977=100)	Aug. 1989	July 1989	Aug. '89 vs Aug. '88 % change	Aug. 1989 days	Aug. 1989 % change
TOTAL	197.5	175.5	12.1	46.1	0.4
EAST	164.4	161.7	9.7	43.5	0.2
SOUTH	280.8	253.5	17.6	35.8	0.3
CENTRAL	164.7	142.0	12.4	57.9	0.6
WEST	208.5	196.5	−1.2	31.9	0.5

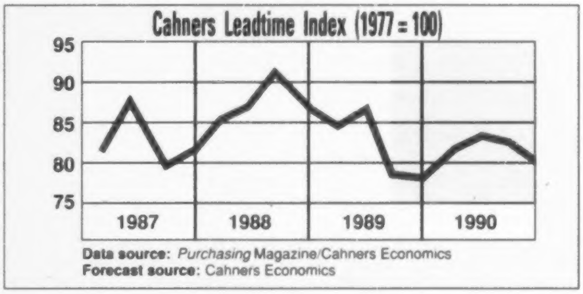
SOURCE: **Industrial Distribution Assn.**

SUPPLY OUTLOOK

BY ANNE MILLEN

Leadtimes and inventories fall

Prices should remain stable



Data source: *Purchasing* Magazine/Cahners Economics
Forecast source: Cahners Economics

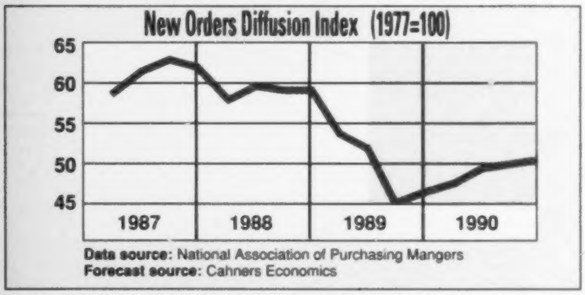
Leadtimes have continued to fall. In August, Cahners Composite Index of 125 industrial leadtimes plunged 6.0% and in September the index dropped another 1.5%. That represents a 12.0% decline since the outset of the year. Compared to a year ago, 111 leadtimes were shorter in September. Only six categories posted longer leadtimes and eight were the same.

Inventories are still being reduced. According to a recent survey of purchasing managers, 50% are holding inventories steady and nearly 32% are scaling back. Further, the National Assn. of Purchasing Managers (NAPM) indicates inventories have been declining since January.

Both the NAPM survey and Purchasing Magazine's surveys on price trends show more OEM and MRO buyers are reporting low or falling prices right now than in the past two years. In 1987, 75% of Purchasing's buying panel members reported prices were rising, with only 25% reporting prices steady or falling. In August, those percentages had actually reversed. Now 75% of industrial buyers are reporting stable prices.

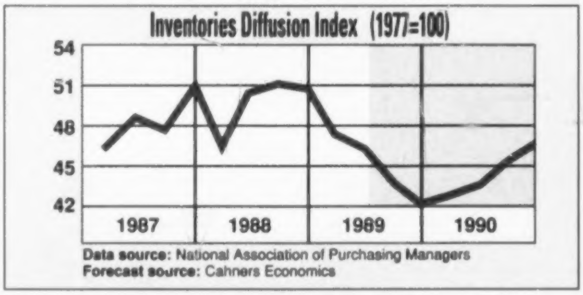
Purchasing managers are also indicating reduced orders, production, and employment levels. The NAPM composite Purchasing Managers Index (PMI) has been below 50% since May. An index value of 50% indicates no change in business activity so, in each month since May, business activity has decreased.

The economy is just now moving into its slowest period of growth and isn't expected to turn around until at least mid-1990. The NAPM PMI is expected to remain below 50% at least through the second quarter of 1990 and, the Cahners Leadtime Index should hover around its current level throughout most of 1990. Easy availability of most goods will keep prices low and/or stable. ☐



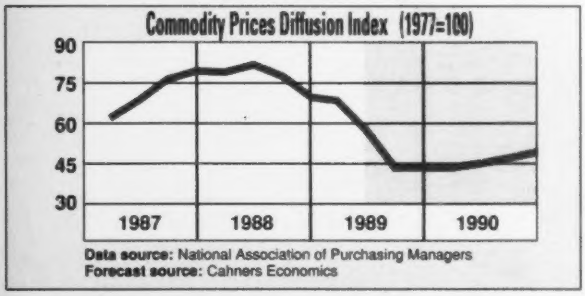
Data source: National Association of Purchasing Mangers
Forecast source: Cahners Economics

The NAPM order index stood at 45% in August; 55% of businesses surveyed reported stable or declining orders.



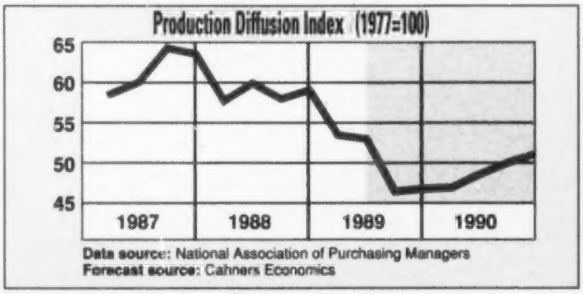
Data source: National Association of Purchasing Mangers
Forecast source: Cahners Economics

The NAPM inventory index stood at 43% in August; 57% of businesses polled reported steady or falling inventories.



Data source: National Association of Purchasing Managers
Forecast source: Cahners Economics

The NAPM commodity price index stood at 43% in August; 57% of buyers surveyed reported stable or falling prices.



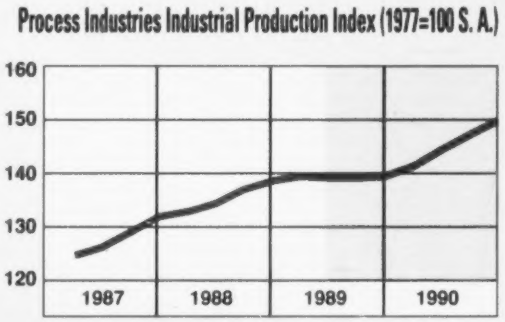
Data source: National Association of Purchasing Managers
Forecast source: Cahners Economics

The NAPM production index stood at 46% in August; 57% of businesses surveyed reported cuts in production.

SUPPLY OUTLOOK

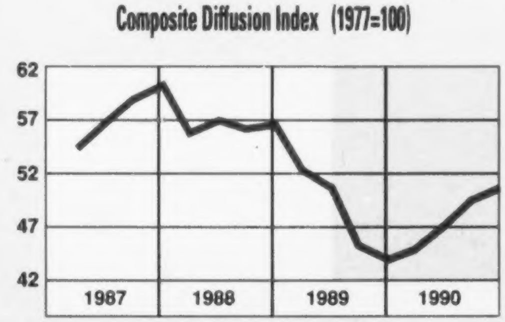
Will the process industries slow?

Industrial distributors are reporting brisk business with the process industries. Paper production increased 1.3% between June and July. Chemical output gained 0.5% in July. Production of petroleum products recovered in July to a level higher than that seen at the outset of the year. Output of primary metals rose 2% in July, and the production index covering rubber & plastic products stood 5% higher than in February. Is the slowdown over for the process industries? Not quite yet. Production cuts are not anticipated but the numbers will oscillate around their current levels through mid-1990.



Data source: Federal Reserve Board
Forecast source: Cahners Economics

Process industry output is expected to expand by 2.6% this year, and by nearly 5.0% during 1990.



Data source: National Association of Purchasing Managers
Forecast source: Cahners Economics

The PMI stood at 45% in August; 55% of the businesses surveyed reported stable or declining business activity.

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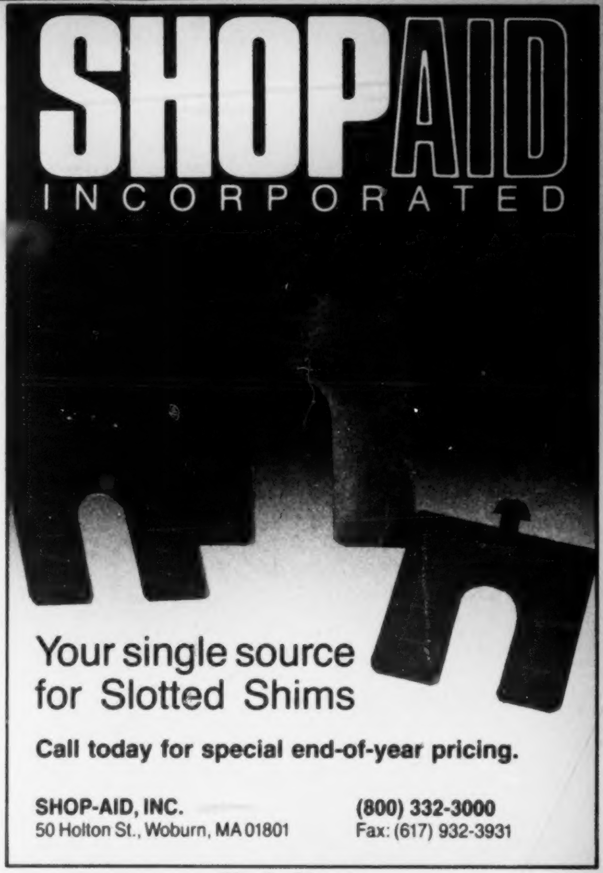
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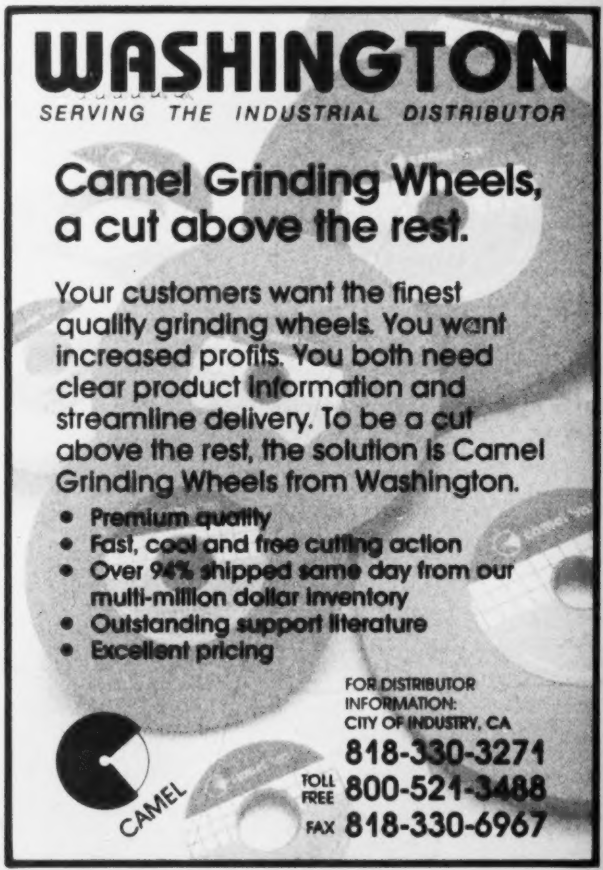
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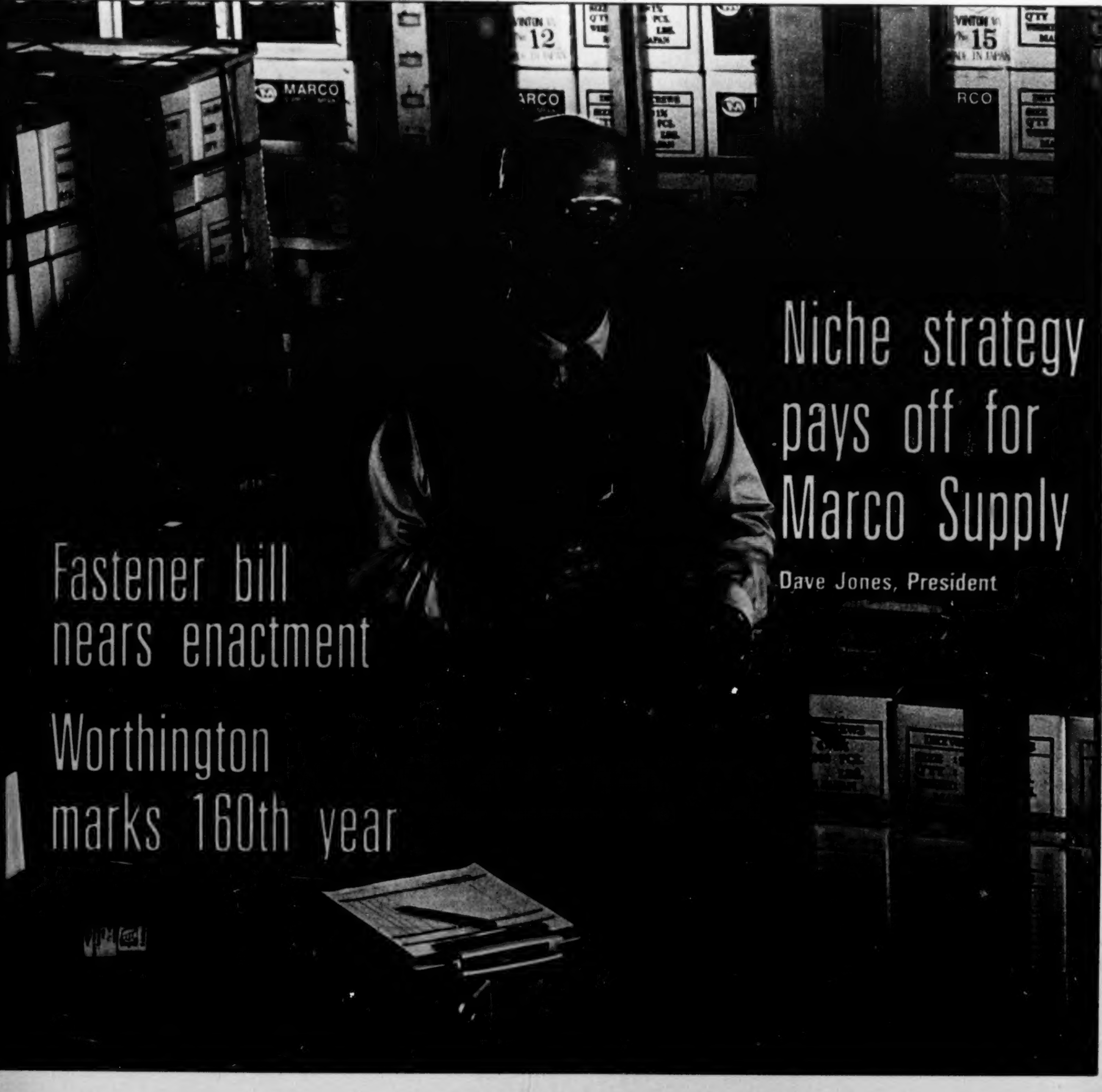

Niche strategy pays off for Marco Supply

Dave Jones, President

Fastener bill nears enactment

Worthington marks 160th year

Industrial Distribution
THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS
VOL. 78, NO. 12 DECEMBER 1989 A CAHNERS PUBLICATION

Dave Jones stocks his shelves to serve a six-state construction niche.

Cover photography by Steve Budman

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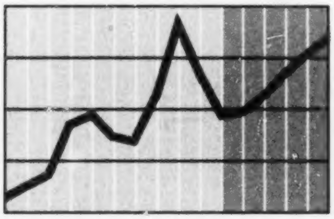

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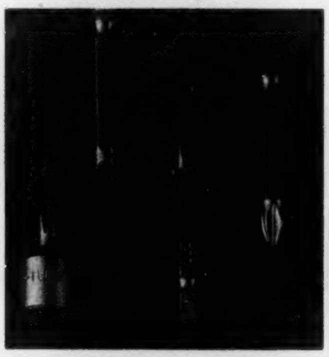

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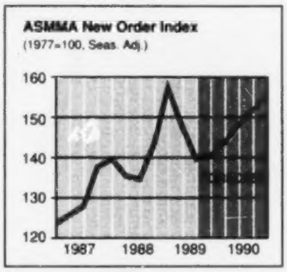
BUSINESS REPORT

BY KRIS BLEDOWSKI

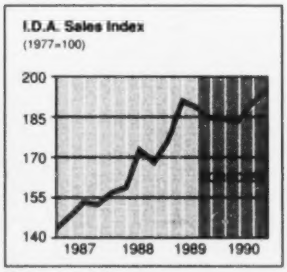
OEM slowdown expected in 1990

But growth will still be apparent

The OEM sector, which comprises heavy machinery and components in categories SIC 34-38, typically follows the general trend of total industrial output. Accordingly, the first half of the new year will see slowing output of durable goods, followed by a moderate upswing in the last two quarters. After this year's gain of 3.6%, expect OEM industrial production to advance 2.2% in 1990 and another 5.5% in 1991.



Data source: ASMMA
Forecast source: Cahners Economics



Data source: I.D.A.
Forecast source: Cahners Economics

Nonelectrical machinery has been the driving force in the OEM sector's strong showing. We expect growth to slow down significantly next year but be still above this year's levels. Industrial production of nonelectrical machinery should top 3.0% in 1990, down from this year's surge of 8.5%..

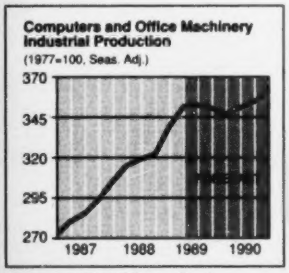
Almost all of the industries within the SIC 35 grew at, or close to double digit rates in 1989. However, in 1990, lower single digits will be the norm. Construction machinery is likely to remain strong with a growth rate of 4.4% this coming year.

Output of special machinery, such as those for the textile industry, will barely change from this year while production of engines and farm equipment will actually fall 4.5% in 1990. The only exception is plastics equipment.

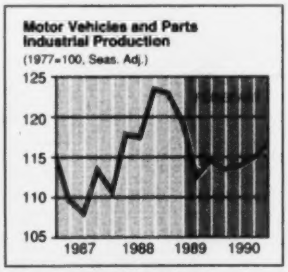
Manufacturers of plastic processing machinery will see orders begin to recover in 1990. Orders for domestically produced injection molding machines are forecast to grow 6.3% from 2,163 units in 1989 to 2,300 units in 1990. Extrusion machinery orders will advance from 1,023 units this year to 1,100 in 1990. And orders for auxiliary equipment will remain flat.

Metalworking machinery has been gaining momentum as machine tools shipments have begun to soar at an annual rate of over 30% as '89 closes. Again, this rate is not sustainable in 1990.

The overall strength of heavy machinery can be attributed to confidence in the economy's momentum. Firms continue to spend in anticipation of the next expansion. Capacity has been strained, prompting production managers to think about investment now when interest rates have declined and inflation is moderate. With most economists not forecasting a recession, the prospects for heavy machinery are good. ☐



Data source: Federal Reserve Board
Forecast source: Cahners Economics



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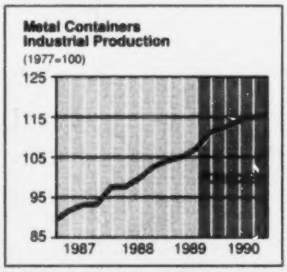

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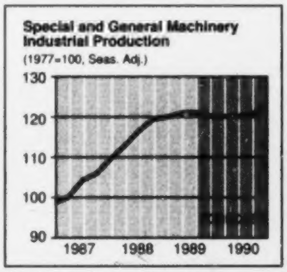


Data source: Commerce Department
Forecast source: Cahners Economics

	SALES			RECEIVABLES	INVENTORY
(1977=100)	Sep. 1989	Aug. 1989	Sep. '89 vs Sep. '88 % change	Sep. 1989 days	Sep. 1989 % change
TOTAL	192.8	197.5	7.3	40.8	-0.9
EAST	163.9	164.4	7.6	44.7	-1.6
SOUTH	266.2	260.8	9.5	38.0	-0.9
CENTRAL	163.4	164.7	11.4	42.2	-0.6
WEST	210.22	208.5	-3.4	39.4	0.1

SOURCE: Industrial Distribution Assn.

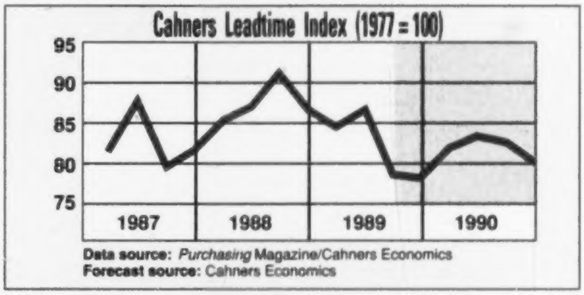
SUPPLY OUTLOOK

BY KRIS BLEDOWSKI

TPI to remain moderate in '90

Metals production will stabilize

Cahners Transaction Price Indicator (TPI) tracks price fluctuations for 120 industrial commodities. Beginning in August 1986, the indicator rose above the inflation-signaling 50% level and remained there for 32 consecutive months. This means that each month since August 1986, over half the commodities tracked went up in price. Late in 1987, the indicator rose above 70%. Price increases at the commodity level are one of the fundamental contributors to inflation.



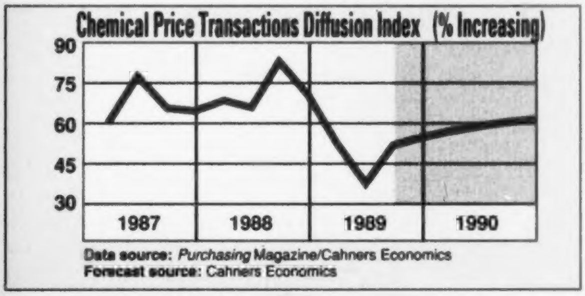
Data source: *Purchasing* Magazine/Cahners Economics
Forecast source: Cahners Economics

In April, the TPI finally dipped below 50% and has remained so for six consecutive months. In August, the indicator hit 34%. Between April and September, price cuts were most pervasive in commodity metals and plastic resins but a majority of chemical prices tracked were also falling. The TPI is expected to remain in the high 30 to low 40 percent range through the middle of 1990. Late next year, most materials buyers will see stable prices and the indicator will approach 50%.

The 1990 metals production forecast has been revised substantially downward. Originally, the forecast assumed that inventories would not accumulate as demand began to drop off in 1989.

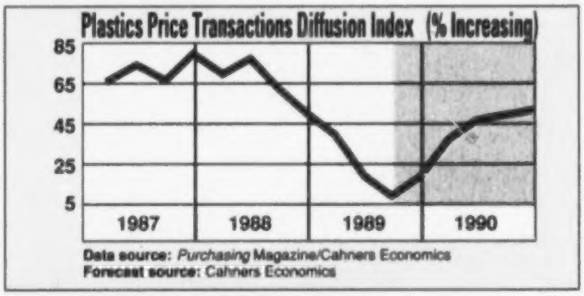
Between August 1988 and August 1989, aluminum production increased 7.0% and capacity utilization remained near 100%. Part of that increase was exported. In the first six months of the year, aluminum exports advanced 38%. According to *Purchasing* magazine, the volume transaction price for primary ingot fell from $1.24 per pound in September 1988 to an average of $0.81 in the third quarter. Plunging transaction prices indicate supply is outpacing demand.

Output of iron and steel is expected to be flat next year, while production of nonferrous metals should decline, but only marginally. As such, primary metals output in 1990 is expected to remain even with 1989 levels. ☐



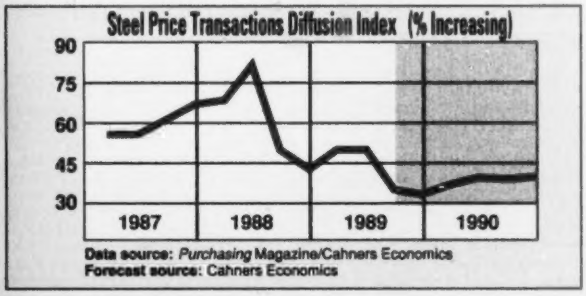
Data source: *Purchasing* Magazine/Cahners Economics
Forecast source: Cahners Economics

Expect chemical prices to rise sharply next year, with the diffusion index reaching the 60 mark.



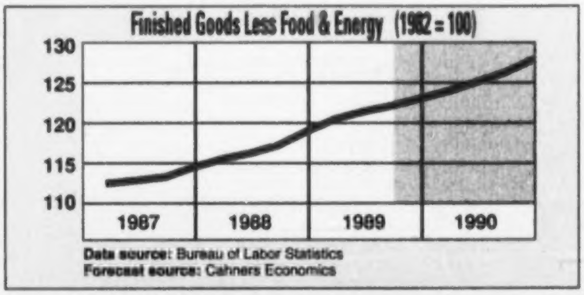
Data source: *Purchasing* Magazine/Cahners Economics
Forecast source: Cahners Economics

Prices for plastics products are expected to balloon in 1990, with the index rising more than 100%



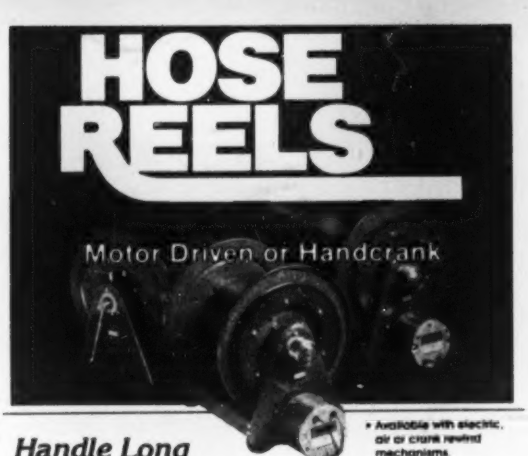
Data source: *Purchasing* Magazine/Cahners Economics
Forecast source: Cahners Economics

After staying above 50, the diffusion index will fall to the 40-mark by next year.



Data source: Bureau of Labor Statistics
Forecast source: Cahners Economics

Inflation for producer goods excluding food and energy will rise only 3.3% next year, down from a 4.15% rate in 1989.



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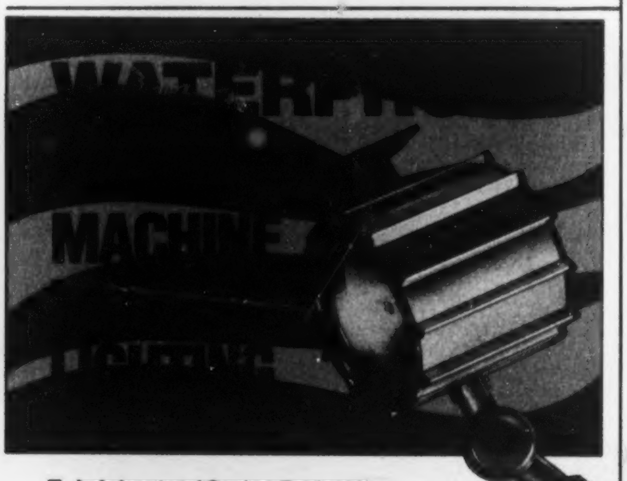

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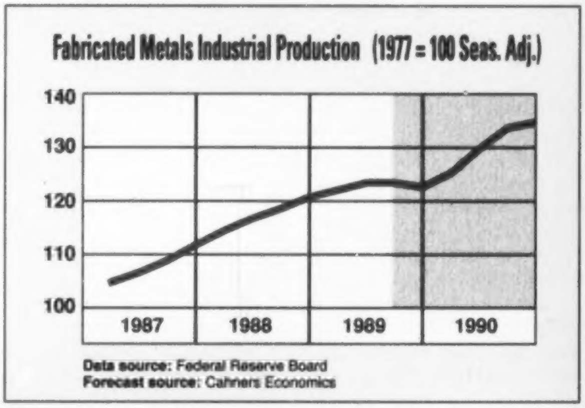
SUPPLY OUTLOOK

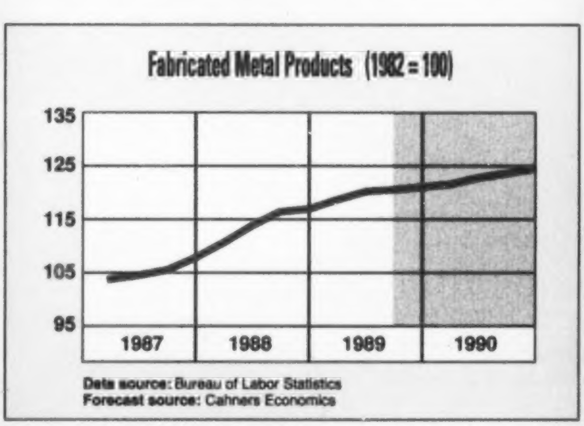
Fabricated metals stronger than OEM in 1990

Output of fabricated metals, which peaks and troughs earlier than that for OEM products in general, has been weaker than the output in most durable goods industries. After a peak of 9.0% in 1988, fabricated metals production inched up 3.4% last year and will rebound 6.7% in 1990 before levelling off to an annual rate of 2.5% by 1991. Structural metal production grew faster, but next year's gain will be modest. Expect growth of this category to reach only 2.9%. Hardware and tools, on the other hand, will directly follow the industry with a growth rate of 7.0% in 1990 and 6.8% in 1991.



Data source: Federal Reserve Board
Forecast source: Cahners Economics

After a slower 1989, industrial output of fabricated metals will grow at a healthy clip of 6.7% next year.



Data source: Bureau of Labor Statistics
Forecast source: Cahners Economics

Inflation in the fabricated metals sector will slow down significantly next year to a 2.5% annual rate.

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JANUARY 1990
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Industrial Distribution

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

SPECIAL:

Presidents' outlook for '90

W.W. Grainger pursues new path

Wiley N. Caldwell, President

Co-op dollars find new customers

Cutting tool expertise wins sales

New this month
PACESETTERS

Industrial Distribution

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

VOL. 79, NO. 1 JANUARY 1990 A CAHNERS PUBLICATION

Wiley N. Caldwell has added new dimensions to W.W. Grainger's operations.

Cover photography by Marc Berlow

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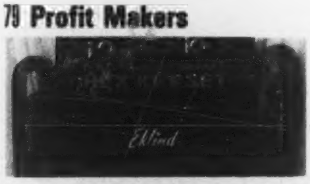

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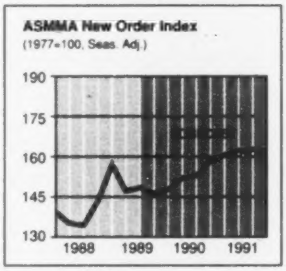
BUSINESS REPORT

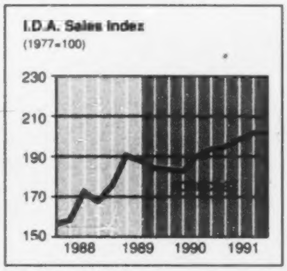
BY KRIS BLEDOWSKI

Fluid and PT growth slows

But fabricated metals will rebound



Data source: ASMMA
Forecast source: Cahners Economics



Data source: I.D.A.
Forecast source: Cahners Economics

The miniboom among fluid power components, which helped the industry grow 8.5% last year, will definitely peter out this coming year. Export orders will decline sharply, and domestic consumers will not be able to make up the difference. Expect growth to slow down to a 1.8% annual rate by year's end.

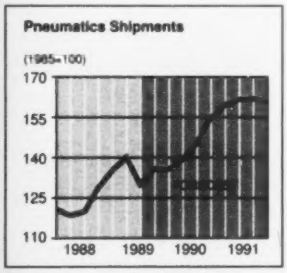
Pneumatics will be the strongest fluid sector this year, and will grow at an expected rate of 6.2%. Industrial hydraulics have benefited from the general capacity expansion which many firms have undertaken in the past year or so. Expect this category to register a gain of 4.2%. Mobile hydraulics, the largest portion of the industry, have been weak and the prospects are slim. Our forecast calls for an increase of only 1.8%.

Sales of mechanical power transmission equipment have been driven by the latest investment boom as well. This industry parallels fluid power to a large extent. Following last year's strong growth of 9.8%, shipments of power transmission components will rise 4.9%, well above the manufacturing industries' total. The production lag explains why orders were up only 2.8% last year while this year's gain in new orders will be a substantial 10.7%, anticipating an expansion.

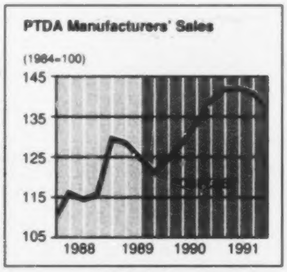
Power transmission component makers, supplying all durable goods producers, have also benefited from the latest export boom. Foreign markets will continue their importance in 1990 and 1991, albeit to a smaller extent than in previous years.

Output of fabricated metals, which peaks and troughs earlier than OEM in general, has been weaker than performance in most durable goods industries. After 1988's peak growth rate of 9.0%, production inched up 3.4% last year and will rebound 6.7% in 1990 before levelling off to an annual rate of 2.5% by 1991. Structural metal products rose faster, but this year's gain will be a modest 2.9%.

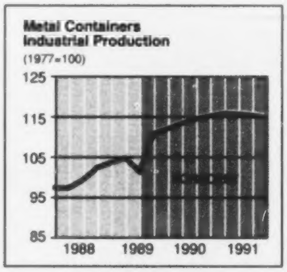
The forgings industry has finally begun to cool off from its strong growth during the past two years. Sales of impression die forgings will dip 2.2% this year to $2.86 billion after last year's advance of 8.1%. Conversely, orders are expected to slide 5.9% in 1990 following last year's plunge of 9.4%. ☐



Data source: National Fluid Power Assn.
Forecast source: Cahners Economics



Data source: Power Trans. Distributors Assn.
Forecast source: Cahners Economics



Data source: Federal Reserve Board
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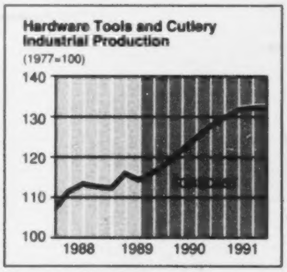


Data source: Commerce Department
Forecast source: Cahners Economics

	SALES			RECEIVABLES	INVENTORY
(1977=100)	Oct. 1989	Sep. 1989	Oct. '89 vs Oct. '88 % change	Oct. 1989 days	Oct. 1989 % change
TOTAL	175.0	192.8	2.0	39.1	-0.5
EAST	157.7	163.9	6.8	42.7	0.7
SOUTH	248.3	206.2	9.7	37.4	-1.1
CENTRAL	141.8	163.4	-.2	39.7	-0.4
WEST	189.8	210.2	-6.5	36.7	-0.2

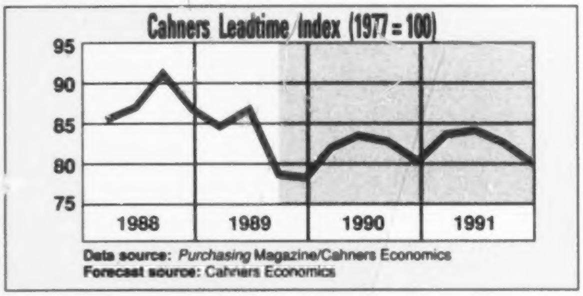
SOURCE: Industrial Distribution Assn.

SUPPLY OUTLOOK

BY KRIS BLEDOWSKI

Process industries look bright

Prices will decline in 1990


Cahners Leadtime Index (1977 = 100)

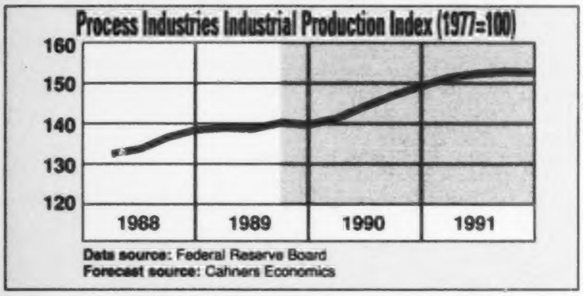
Data source: *Purchasing* Magazine/Cahners Economics
Forecast source: Cahners Economics

Process industry output is expected to advance almost 4.5% in 1990. Some industrial commodities will endure an inventory overhang early in the coming year and transaction prices will continue to tumble. Late in the year, renewed strength in manufacturing end-markets will revive commodity orders, industrial production will begin to rise, and both leadtimes and prices should begin to recover lost ground.

Demand for industrial materials slowed perceptibly in 1989. Confronted with slowing orders, shrinking backlogs and soaring prices, end-users reduced materials inventories this past year. The National Association of Purchasing Managers' inventory index has been below 50% since May of 1989. That means more than half of those surveyed were either reducing inventories or holding them steady. Process industry shipments growth slowed from 11% in 1988 to an estimated 6% this past year. Accordingly, factory output by processors fell from 6% growth in 1988 to an estimated 2.6% gain in 1989. However, in some materials markets—steel, aluminum, lumber, pulp & paper—output remained too strong this past year and inventories relative to shipments are still climbing.

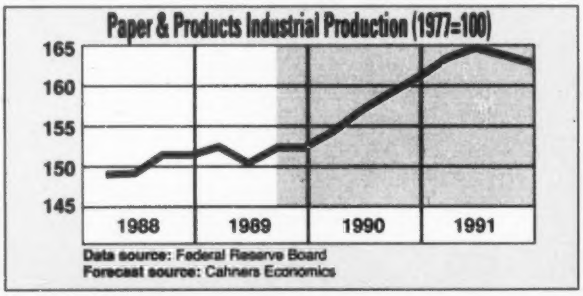
Cahners' Index of 125 Industrial Leadtimes declined an estimated 6.4% this past year and will hover at its current level throughout most of 1990.

On balance 1990 will be a growth year for the process industries. Process segments which emphasize exports or which feed consumer industries, including homebuilding, will fare best. By the end of the year, all process segments should be seeing renewed growth as an anticipated resurgence in durable goods manufacturing kicks in. Most industrial materials will be easily available and prices will lose ground while suppliers adjust to lowered demand. ☐


Process Industries Industrial Production Index (1977=100)

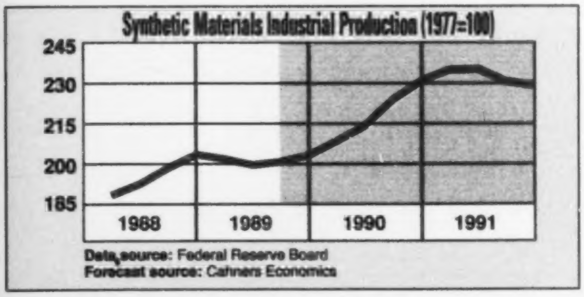
Data source: Federal Reserve Board
Forecast source: Cahners Economics

Output of process industries will pick up this year to an annual rate of 4.3%.


Paper & Products Industrial Production (1977=100)

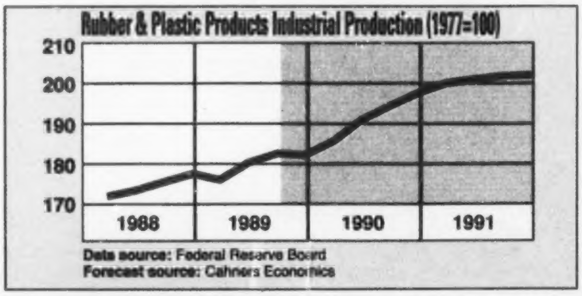
Data source: Federal Reserve Board
Forecast source: Cahners Economics

Industrial production of paper products, which was virtually flat in 1989, will rebound to the tune of 3.9% in 1990.


Synthetic Materials Industrial Production (1977=100)

Data source: Federal Reserve Board
Forecast source: Cahners Economics

Inflation-adjusted output of synthetic materials will skyrocket 8.9% this coming year and rise another 5.9% in 1991.


Rubber & Plastic Products Industrial Production (1977=100)

Data source: Federal Reserve Board
Forecast source: Cahners Economics

Rubber and plastics industries will continue their steady growth paths in the next two years.

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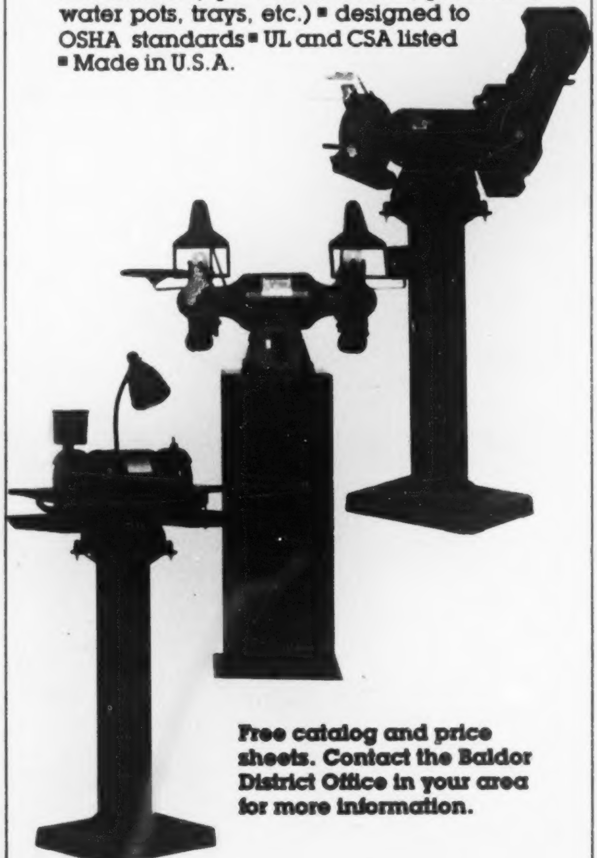

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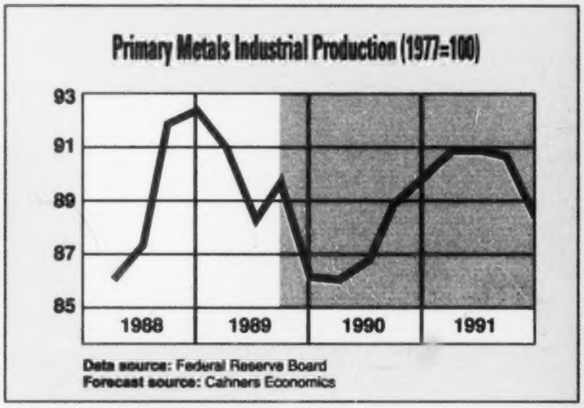
SUPPLY OUTLOOK

Surplus of steel and shortage of copper continues

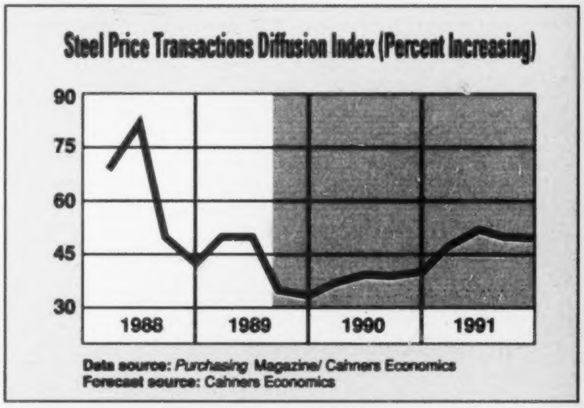
Copper has been plagued by supply disruptions, but large capacity expansions have been underway. Also, many problems underpinning supply shortages have been resolved. Analysts point to a possible 400,000 tons of excess supply in 1990. Domestic steel output is being slashed, but it may be too late. According to a member survey conducted by the Steel Service Center Institute, over half of the respondents said inventories relative to shipments were too high in consecutive months between May and October. Worldwide demand for steel has weakened, and some exporters have begun dumping in U.S..



Primary Metals Industrial Production (1977=100)

Data source: Federal Reserve Board
Forecast source: Cahners Economics

Output of primary metals will decline marginally this year after a 0.8% slump in 1989.



Steel Price Transactions Diffusion Index (Percent Increasing)

Data source: *Purchasing* Magazine/ Cahners Economics
Forecast source: Cahners Economics

The diffusion index of transaction prices will stay below the 50% mark through most of this and next years.

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Industrial Distribution

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

SPECIAL:

Outlook for abrasives

King Bearing & SKF: Training Partners

Have capital, will acquire

Donald Marshall
Sun Distributors L.P.
Philadelphia, PA

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SPECIAL REPORT

Can MOM and POP Survive?

By John G.F. Bonnanzio, Associate Editor

As mergers and acquisitions reshape industrial distribution, well-capitalized corporations are replacing the family-owned business.

A new kind of entrepreneur is wresting control of the industrial supply business. The old days when father battled the vendors while mom did the books and junior supervised outside sales are vanishing.

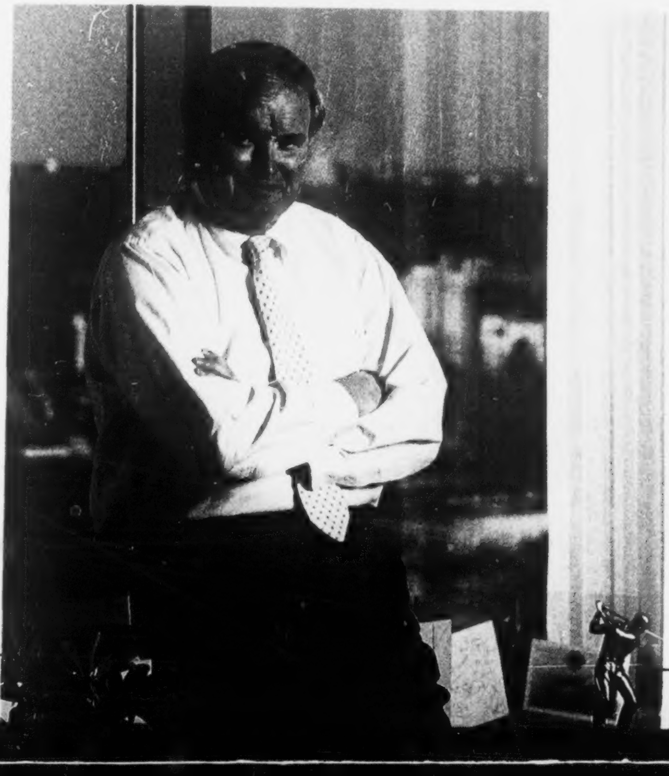
Every year more and more family businesses are being acquired by quasi-distributorships, holding companies really, with deep pockets and access to capital. As a result, top management frequently lack traditional industrial supply experience, and are singularly dedicated to streamlining an acquired company's operations.

Observes Gary Buffington, president of the Industrial Distribution Assn., "mergers and acquisitions are creating a more efficient distributor," noting that younger management is quicker to embrace new technologies. While one can argue that this is an industry begging for fresh ideas, others wonder how well a distributorship in Oregon can be managed from Orlando or, for that matter, from Orleans, France.

On the positive side, sons -in-law are less likely to receive as dowries branch operations with questionable profitability. Today, "return on investment" and "shareholder value" are more than just slogans, they are the driving force behind every company with a serious interest in winning market share and turning profits.

Does this mean that family businesses are inherently inadequate when measured against better capitalized companies? "Absolutely not," declares Donald Marshall of Sun Distributors L.P. (see box). Nonetheless, says the industry's leading acquisition maven, "today's mom and pop distributor now faces the same economic considerations that killed the local grocery, hardware, clothing, drug and food store." Specifically, he says, smaller companies simply don't generate enough gross margin to spread across their bottom line.

Of increasing import to distributors (particularly for those who have relied solely on providing credit and inventory turns for profits), are economies of scale. While limited purchasing power can be a disadvan-



Sun Distributor's Donald T. Marshall: How many distributors can $100 million buy?

tage to smaller companies, it is not an all-important factor. However, sharing front-end expenses such as computers, software design, bar coding, EDI, material handling and telecommunications costs have made distribution a far more capital intensive business.

Says merger and acquisition consultant George Spilka, "The $3- to $4 million distributor is no longer large enough to amortize its entire functional support area. The mom and pop can effectively compete without such things as data processing," he says, "but only by providing personalized services to its customers."

Even at the nation's largest industrial distributorship, W.W. Grainger, Inc., that fact is not lost on the company's CEO Wiley Caldwell. "Depending on the complexity of the business," he says, "economies of scale can be important." Which is why the $1.6 billion distributorship has invested heavily in data and information processing systems. At the same time, Grainger's acquisition of Vonnegut Industrial Products, Inc. (a $40 million cutting tools and abrasives house), demonstrates Caldwell's appreciation of large, specialized distributorships, with regional strength and expansive technical expertise—two capabilities more easily acquired than developed.

CHANGING ISN'T EASY

In its 1987 report *Facing the Forces of Change*, Arthur Andersen & Co. concluded that only those companies willing to make "fundamental changes" to their current business

The friendly acquirer

From the 26th floor of his company's Philadelphia headquarters, Donald Marshall looks out over a land full of opportunity. As Marshall sees it, simple demographics is a prime contributor to Sun Distributors' rapid expansion. Why?

For the thousands of distributors who started their businesses shortly after the Second World War, their retirement years have arrived. Many don't have family members to take the helm. Others see the industry consolidating, changing, getting more complicated—less profitable—and simply want out. "Maybe they start feeling a few heart twinges," says Marshall, "and the wife says 'why not enjoy the years we have left in Florida?'

That's when telephones on the 26th floor begin to ring. And ring they do. Marshall says that every year hundreds of distributors approach Sun with the intention of being acquired. For the most part, they are companies in the fluid power, electrical, maintenance (fasteners) and glass business—Sun's four areas of specialization.

Why all of the interest in Sun? First, the publicly-held distributor has a reputation as a friendly acquirer. But, more importantly, its hands-off management style is comfortable to people who have never had bosses. And with a mere 13 employees to oversee sales that should easily surpass $600 million this year, Sun's corporate culture is decidedly more lean than mean.

"We really want the companies we buy to run themselves," says the 56-year-old Marshall, and he won't even consider an acquisition unless the seller stays with the business for three years. "Distribution is still a people business," he says, noting that it's the company's management team that makes the difference. "If you're well financed, any fool can buy the inventory and put an organization together. But it takes a special skill to sell it, and to make money on it."

Marshall has that special skill. While Sun has never paid a dividend on its B, or common shares since going public in 1987 (Class A stock has), much of that is due to non-recurring expenses. For one thing, Sun Distributors was acquired through a leveraged buyout from the Sun Oil Co. in 1986. In 1987 the newborn company lost $6.6 million, earned $12 million in 1988, and made $13.2 million during the first nine months of 1989. In addition, sales have increased for eight straight quarters, and Marshall expects to add $75- to $100 million in sales over the next two years through acquisitions.

To fund these buy-outs, Marshall will continue to spend accumulated cash. Marshall's mission includes buying as many of the nation's premium, value-added distributors as the company can find and afford. Since 1987, 30 such businesses have been bought. "This window of opportunity won't last forever," he says, "and if we don't get them now, someone else will."

Don Struble has been doing the same thing for 28 years, and now thanks to Sun, he's finally getting out. For 17 of those years Struble, 52, has owned and managed Denver's Warren Fluid Power Co., and has presumably made it profitable. In the process, he has also made his company an attractive addition to Sun's stable of 4 other fluid power businesses.

WARREN
FLUID POWER

"The thing I like about Sun is that they allow you to operate autonomously," says Struble. In fact, since the company was purchased in 1987, Struble has been to the company's headquarters but once, and that was to close the deal. "They feel that the economies of scale in purchasing aren't worth sacrificing a company's independence," says Struble, and in fact, Sun's four group vice presidents never, ever meet with a company's customers.

However, Sun does provide Struble with managerial "guidance." "They're a good resource," he says, "and they have plenty of capital for expansion." And that expansion will no doubt continue long after Struble completes his three year obligation to Sun this July when he officially steps away from Warren. And what will he do with his newly found freedom? "I haven't had time to think about it," Struble says, "I've been too busy growing the business."

practices will survive this current period of "aggressive restructuring (see *ID* Aug. '87)." Nearly three years after that study's release, many of its prognostications have already come to fruition. Says the firm's Patrick Dolan, "Mergers and acquisitions will continue. The big will get bigger, the small will niche and the medium will try various strategies in order to survive and prosper."

The Arthur Andersen report, which was conducted for the National Assn. of Wholesaler-Distributors (NAW), examined four major areas of distribution. These so-called "forces," which were categorized as market, financial, organizational and technological, are worth re-examining because each so dramatically impacts the industry's merger and acquisition climate. In addition, the study has proved itself remarkably accurate in sketching future trends in wholesale-distribution.

THE BIG GET BIGGER

Arthur Andersen predicted that the number of merchant wholesale distribution firms would decline by approximately 25% between 1987 and 1995. The question is whether this number would hold true for industrial suppliers as well. Although there is no data to indicate if this has occured, data does corroborate that merger and acquisition activity is widely prevalent in the industry.

As *ID* reported in its July 1989 issue, 25% of distributors with $5 million or more in sales are "actively" seeking an acquisition, compared to 12% of distributors with sales between $2.1- and $5 million; 10% with sales between $1- and $2 million and; 10% with sales below $1 million. Conversely, 36% of those with less than $1 million in sales said they would "welcome" an acquisition offer, while 23% in the $5 million-plus range thought favorably about being acquired.

But even in today's marketplace a $5 million distributorship can hardly be considered a heavyweight, not when hundred-million dollar businesses are increasingly common. While *ID*'s Survey found that in 1988 the average distributor had sales of $5.2 million, half of the industry still reports revenues of $2.1 million or less. What this means is a golden opportunity for large distributors with young, aggressive management to acquire smaller, family-run distributorships with founders reaching retirement age. However, not all large distributorships look favorably upon this kind of acquisition.

WHAT SMALL DISTRIBUTORS CAN'T DO*

	% with computers	% using EDI	% using systems Contract Sales	Total EDP costs ($ thousands)
Distributor sales size				
Less than $1 million	38	9	15	7
$1-2 million	67	12	33	21
$2.1-5 million	81	30	37	23
More than $5 million	99	58	55	79

*All data for 1988

Source: ID's Survey of Distributor Operations

"We've really made it a strategy to stay away from the smaller distributor," says Briggs-Weaver's CEO Rob Mellor. In one instance, rather than acquire a distributor in El Paso, an area where the Dallas-based company wanted to expand, Mellor decided instead to "work hard for new customers" and took the slower approach of opening a new branch. I know a half dozen distributors that if you gave them the right size check, you could walk away with their business."

Technology requires access to capital.

This is hardly news to Mitchell Jacobson, whose Long Island company has been gobbling-up "smallish" distributorships like potato chips. "Size can provide some real advantages," he says, and has set out to prove it by engaging in an expensive acquisition spree.

In the past few years Jacobson, as president of MSC Industrial Supply, Inc., has extended the company's reach from New York to include branches in New Jersey, Connecticut, Massachusetts, Rhode Island, Pennsylvania, Texas, Louisiana, Colorado and Nebraska. Although vague with company financials, Jacobson says that MSC now sports about 20 branches with sales totaling $100 million. Meaning, that despite its overall size, each branch averages only the typical $5 million in revenues.

So what's the advantage? "The more product you move the lower your costs," says Jacobson, adding that larger distributorships can also leverage the expenses of information services, inventory, catalog costs, and management/personnel costs. Which is not to suggest that Jacobson feels comfortable with the size of his present operation.

"The distribution landscape is changing radically," he says, and predicts that even the $200 million distributor will find the market a "struggle" to survive in just five years from now. By then, a $500 million distributor will be a "stable player," he predicts, and at $1 billion "a market leader." So what then is MSC's strategy for the future? "Obviously," says Jacobson, "you can expect to see us making more acquisitions."

TECHNOLOGY DRIVES ECONOMY

On the technology side of distribution, Arthur Andersen makes a convincing argument that there is an increasing need to improve distributor productivity. This is both expensive and an imperative in order to remain a competitive supplier of products. "EDP costs as a percent of sales will almost double by 1995 from 1.6% to 3%...and expenditures for scanning equipment, telemarketing and vendor/customer links will also increase significantly," says the report. "Improved working capital management...will allow wholesaler-distributors to invest more of total assets in fixed assets, which will allow firms to improve productivity."

According to *ID* 's Survey, not only are larger suppliers more computerized, but their total electronic data processing (EDP) costs appear proportionately higher as well. And these expenses are rising (see chart above). In 1987 distributors spent an average of $67,000 on EDP.

By 1988 that figure climbed to $71,000, a 6% increase. This was due, says the report, to rising salary and equipment costs while material and software costs declined slightly.

The Survey also demonstrates that smaller, less computerized distributors are forfeiting the opportunity to offer customers such important selling arrangements as systems contracts and electronic data interchange (EDI). Without these services, a distributorship's ability to increase inventory turns while marketing itself as a low-cost vendor is a decidedly more difficult task.

This means that in order to grow, investments must be made in expensive technologies, even at the expense of short-term earnings. But the Arthur Andersen report does not believe that future capital needs can be fully met by retained earnings alone. For larger distributors this is probably true. However, smaller supply houses will continue their reliance on commercial leaders, or of course, find well-heeled suitors.

At Alamo Iron Works, Carl Schenken, Jr, who recently relinquished his presidency to an investor group, does not dismiss the possibility that larger companies will turn to public capital markets to finance growth. "It's an interesting concept," says Schenken, although he's quick to recognize that there are not very many publicly held industrial distributorships. "This is a very capital intensive business, and public capital has not been widely used."

Potentially, says Schenken, this may mean an opportunity for the right company. "If you can provide a competitive return on equity to the brokerage houses and institutions; if you can offer stability in a unique situation—you have a niche. And that appeals to a lot of investors." Schenken also believes the "next generation" of distributors, "call it the mega-distributor," will have advantages in terms of purchasing power, but will find difficulties in servicing local customers.

"The small distributor is certainly more fleet-a-foot; and so there will always be opportunities for them," he says. However, Schenken also spies some opportunities for the larger supply house. "My concept is the larger distributor can turn that advantage around, and use its size to develop speed."

In the Texas market where Alamo operates a variety of businesses, Schenken suggests a shake-out in

NOTABLE MERGERS & ACQUISITIONS OF 1988/89

Purchaser	Acquired
Cutting Tools & Abrasives	
Kennametal, Inc. Pittsburgh, PA	Garrett Industrial Supply Co. of Allied Signal Aerospace Phoenix, AZ J & L Industrial Supply, Detroit, MI
Manufacturers Supply Grand Rapids, MI	Lakeshore Machinery & Supply, Muskegon, MI
General Industrial	
Boring & Smith Tucker, GA	Dixie Industrial Supply, Lexington, KY, and Shelby, NC
ENSCO, Tucker, GA	
Briggs-Weaver Dallas	Merges with Texas Marine & Industrial Supply Houston, TX Both companies are owned by Sammons Enterprises of Dallas
Cardinal Industries Vernon, CT	Equipment Supply Co., Mobile, AL Brian Supply Co., Providence, RI Lindquist Supply, Bridgeport, CT Syracuse Supply/Industrial Products Div., Syracuse, NY
Dillon Supply Co. Raleigh, NC	Industrial Tools & Abrasives, Inc., Madison, AL
MSC Industrial Supply Plainview, NY	Dancorp, Danvers, MA
The Summers Group Dallas, TX	Weaks Supply Co., Shreveport, LA
W.W. Grainger Elmhurst, IL	Vonnegut Industrial Supply Co., Indianapolis, IN Mansco-Lakeshore, Inc., Grand Rapids and Muskegon, MI
The Geo. Worthington Co. Mentor, OH	Erie Industrial Supply, Erie, PA
Fluid Power	
Harris Pump & Supply Co. Pittsburgh, PA	C.A. Turner, Inc., Pittsburgh, PA Pittsburgh branch, Pa. & W. Va. Supply Co., Columbus, OH
Pa. & W. Va. Supply Co. Columbus, OH	Certain assets of Al Supply Co., Shrewsbury, WV
Sun Distribution Philadelphia, PA	A. & H. Bolt & Nut, Windsor, Ont
Machine Tools	
Fuchs Machinery Co. Omaha, NE	Machine Tool Div. of Applied Machine Systems, Denver, CO
Geo. Worthington Co. Mentor, OH	Erie Industrial Supply, Erie, PA
Materials Handling	
Modern Group Ltd., a holding subsidiary of Modern Handling Equipment Co., Bristol, PA	Elfenstone, Baltimore, MD RZ, Bristol, PA
Power Transmission	
Shingle & Gibb Co. Pennsauken, NJ	Slaysman Drives & Controls, Baltimore, MD Zwiebel Drives & Controls, Wilkes Barre, PA
Industrial Rubber & Hose	
G.T. Sales & Manufacturing Wichita, KS	Ranger Rubber Co., Omaha, NB
Specialty Tools & Fasteners	
Carlson Systems Omaha, NE	Strapco, Portland, OR, Tacoma, WA
Fastener Services, Inc., A Detroit-based management company	Florida Nut & Bolt, West Palm Beach, Ft. Lauderdale Materials Management Group, Appleton, WI

This information is a partial listing, and is as accurate as can be determined from various sources at the time of publication.

the oil patch is almost inevitable. Some of the state's already large players are going to wind-up even larger, he says. It's no secret that Briggs-Weaver was seriously courting Garret Industrial Supply before the California distributor was bought by Kennametal Inc., a match-up that Briggs-Weaver's Rob Mellor says would have been "perfect synergy."

Other contenders for the Texas market must certainly include Houston's Rex Supply Group, MSC Industrial (with its acquisition of Service Tool's four state-wide branches), and perhaps even W.W. Grainger, when (and if) it diverts its attention away from the mid-west. Says Schenken, "It's very easy to see who's sitting around the poker table. It's just a question of who's going to walk away with all the winnings."

Who's holding all the cards in Texas? B-W's Rob Mellor should be watched.

BANDING TOGETHER FOR PROFITS

While no one, or even 100 distributors are likely to dominate the entire industrial supply business in years ahead, the industry is already fashioning itself after its close cousin, the hardware store. While local shops still exist in every small town and metropolis, most independent hardware stores are members of buying/marketing groups such as Sentry, True Value and Ace Hardware. Although these relationships bring purchasing power and shared promotional costs to the hardware store, the value-added service of local convenience remains their greatest strength.

Similarly, small industrial distributors can operate the same way, but not if a competitor such as W.W. Grainger operates nearby. Which is why buying/marketing groups like ID One on the industrial side, and Evergreen on the construction side, are increasingly popular. If the independent mom and pop supplier cannot compete on price (which it can't), all that remains is service and technical expertise. And technical expertise, such as hiring an engineer, does not come cheap.

"Ten years ago industrial distribution was one of the last places in America where an entrepreneur could buy a little inventory and set himself up in business," says Sun's Donald Marshall. And although he believes small independents can carve out niches, their ability to add value to products without sharing costs places these distributors in a very precarious position. "It's sad but it's true," he says, "But S.O.B.s like me, are taking it all over." ☐

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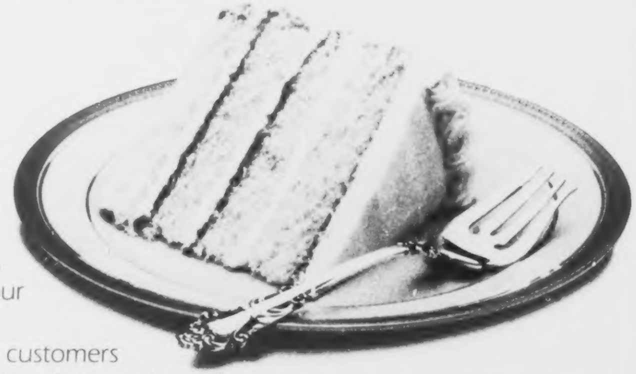


BUSINESS REPORT

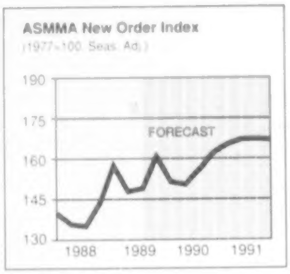
BY KRIS BLEDOWSKI

Mixed economic outlook for '90

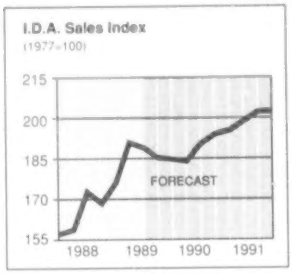
Fluid power slows while materials handling expands

An 8.5% miniboom in the fluid power industry during 1989 will definitely not be repeated in 1990. Exports are declining sharply, and demand by domestic consumers will not be able to sustain last year's expansion. Expect growth to slow to 1.8% by year-end 1990.

Pneumatics will show the strongest growth, with an expected gain of 6.2% in 1990. Industrial hydraulics have benefitted from an expansion in capacity which many firms have undertaken recently. This industry is expected to register a gain of 4.2%. Mobile hydraulics, the largest portion of the industry, has seen weak growth and will continue to grow at this pace throughout next year. The forecast calls for an increase of just 1.8%.



Data source: ASMMA
Forecast source: Cahners Economics



Data source: I.D.A.
Forecast source: Cahners Economics

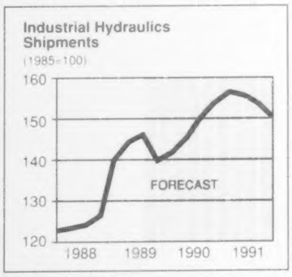
Orders for materials handling equipment weakened in the last months of last year. This contrasts sharply with comparably strong previous-year levels. Buyers have been cautious to spend on new durable equipment when operations volumes may sag in 1990. These conservative spending patterns will continue into the early part of 1990.

As the economy gains momentum, forklift truck orders will gain about 7% this coming year, up from a decline of 2% in 1989. Leadtimes will remain in the nine week range through most of 1990 before stretching out a bit in 1991.

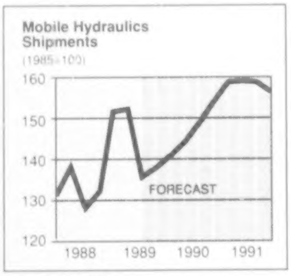
Conveyor orders softened last year but were still above levels of a year before and this trend will continue in 1990. This year's forecast calls for a 2.5% gain followed by a more pronounced expansion in 1991.

Orders for caster and floor trucks will grow much more robustly in both 1990 and 1991. Expect gains of 8.5% and 10.5%, respectively.

The auto industry achieved record profits and sales in 1988. Output of motor vehicles and parts rose 5.1% in real terms, while domestically produced cars alone were up 6.5%. By comparison, this past year was flat, with no growth in industrial production of transportation equipment in general, and a drop of about 3% in auto sales in particular. The transportation industry, which also includes aircraft, ships, railroad equipment, and space gear, will post an increase of 0.5% in output in 1990. ☐



Data source: NFPA
Forecast source: Cahners Economics



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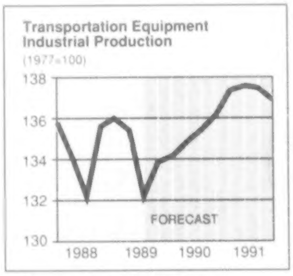
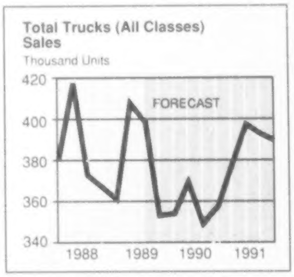
Forecast source: Cahners Economics



Data source: Federal Reserve Board
Forecast source: Cahners Economics



Data source: MVMA
Forecast source: Cahners Economics

	SALES			RECEIVABLES	INVENTORY
(1977=100)	Nov. 1989	Oct. 1989	Nov. '89 vs Nov. '88 % change	Nov. 1989 days	Nov. 1989 % change
TOTAL	189.8	175.0	13.9	43.3	-0.8
EAST	154.3	157.7	4.6	48.1	-2.0
SOUTH	243.6	248.3	11.8	46.4	-2.1
CENTRAL	174.6	141.8	23.9	41.0	-0.1
WEST	191.3	189.8	-3.2	35.6	+0.8

SOURCE: Industrial Distribution Assn.

SUPPLY OUTLOOK

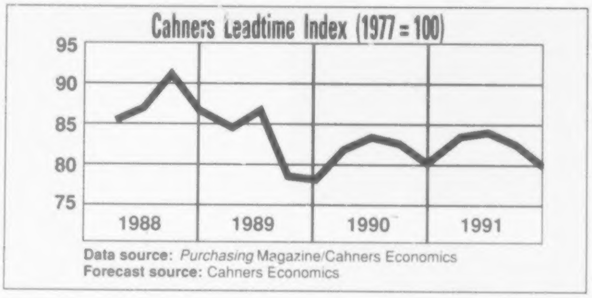
BY PAUL WATERS

Prices and leadtimes fall

Business activity to pick up in mid-1990

Producer prices (PPI) on finished goods are softening. Both the National Assn. of Purchasing Managers (NAPM) and *Purchasing* Magazine's surveys on prices show more buyers reporting falling prices now than in the last two years.

For example, the PPI for the 2nd quarter of 1989 was up 5.9% over the same period 1988. For the fourth quarter of 1989, however, prices are expected to climb only 4.2% from the previous year's levels. Similarly, inflation for fabricated metal products was 8.6% in 1988. In 1989 it was 4.9%, while in 1990 we predict it to be only 2.5%.



Data source: *Purchasing* Magazine/Cahners Economics
Forecast source: Cahners Economics

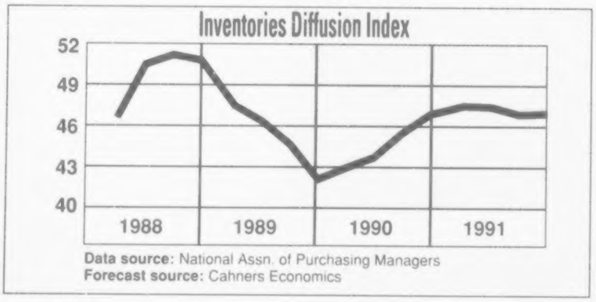
Inflation for intermediate materials is heading down even faster. For the first three months of 1989, prices for these goods were up 6.3% over the same period in 1988. In contrast, prices during the last three months of 1989 will be only 2.9% above last quarter 1988 levels. Furthermore, we project prices on all intermediate materials to creep up only 1.6% in 1990.

Inventories continue to decrease slowly. In a recent survey of purchasing managers, 38% reported decreasing inventories and 40% said inventories were holding steady. Only 22% claimed that inventories were increasing during this economic slowdown, a tribute to modern inventory control.

The economic slowdown is shortening delivery times on most goods. The Cahners Lead-time Index will finish 1989 nearly 7.0% below 1988 levels. The index is not forecasted to change for 1990, a sign of stable leadtimes as the economy slowly rebounds.

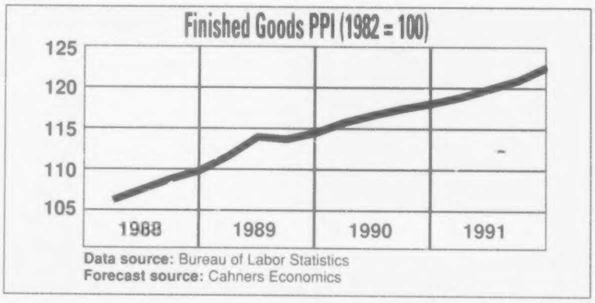
Last November, the NAPM vendor deliveries index dropped for the seventh consecutive month, highlighting recent weak demand.

The NAPM indices of economic activity, new orders, and production will inch above the critical 50% mark in the third quarter. The second half of the year will be strong, but easy availability of goods will help keep prices low.



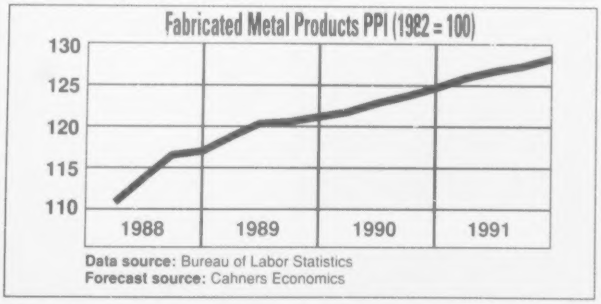
Data source: National Assn. of Purchasing Managers
Forecast source: Cahners Economics

Expect inventories to continue falling slowly through 1990, picking up at mid-year.



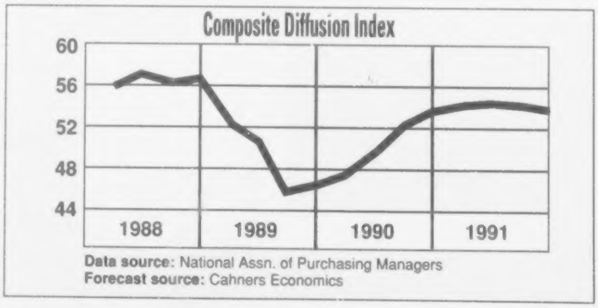
Data source: Bureau of Labor Statistics
Forecast source: Cahners Economics

Producer prices for finished goods will rise only 3.1% in 1990 thanks to the slow economy.



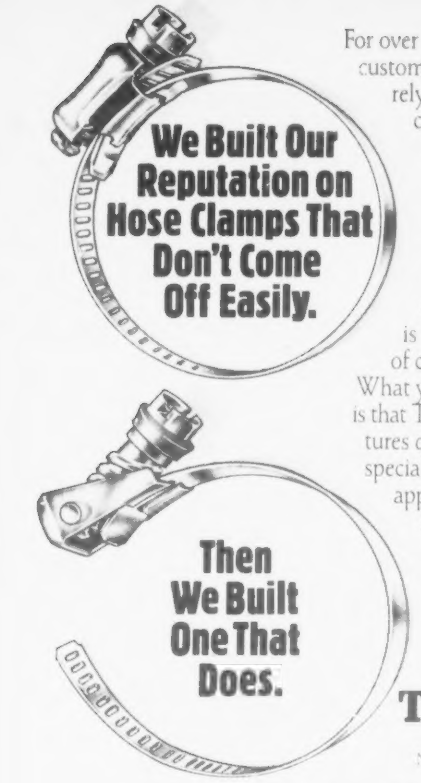
Data source: Bureau of Labor Statistics
Forecast source: Cahners Economics

After high inflation in 1988 and 1989, prices for fabricated metal goods will creep up only 2.5% in 1990.



Data source: National Assn. of Purchasing Managers
Forecast source: Cahners Economics

The economy will pick up in the 3rd quarter, indicated by an expected index value of 52.2.



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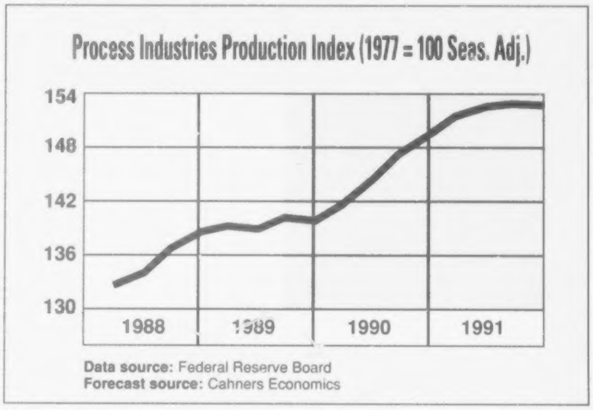
SUPPLY OUTLOOK

Process industries outpace others in 1990

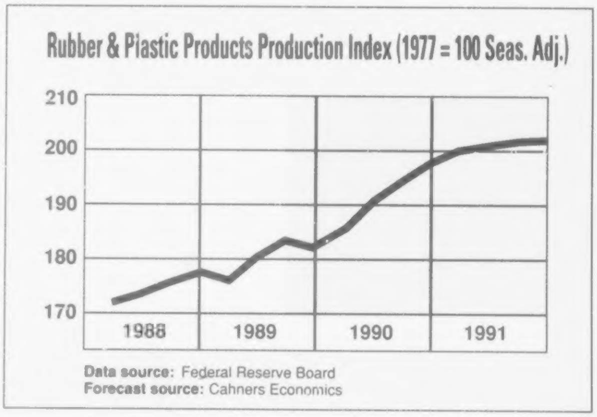
Process industries will be one of the strongest industrial sectors in 1990, with 4.3% growth forecasted. In contrast, overall manufacturing production will be up by only 2.8% this year. Plastics will lead the process industries with an expected 6.4% surge in output, as consumer packaging and construction applications revive. Chemicals will follow with an estimated 5.1% production gain as exports and manufacturing demand remain solid. Production of paper products will also be strong, logging in at a projected 3.8% growth. An increase of 3.4% in coated free sheet shipments will help lead the way.



Process Industries Production Index (1977 = 100 Seas. Adj.)

Data source: Federal Reserve Board
Forecast source: Cahners Economics

Production in the process industries will be up over 4.3% in 1990 and 1991, lead by plastics and chemicals.



Rubber & Plastic Products Production Index (1977 = 100 Seas. Adj.)

Data source: Federal Reserve Board
Forecast source: Cahners Economics

Output of plastic products will jump up 6.4% this year and 4.7% in 1991.

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MARCH 1990
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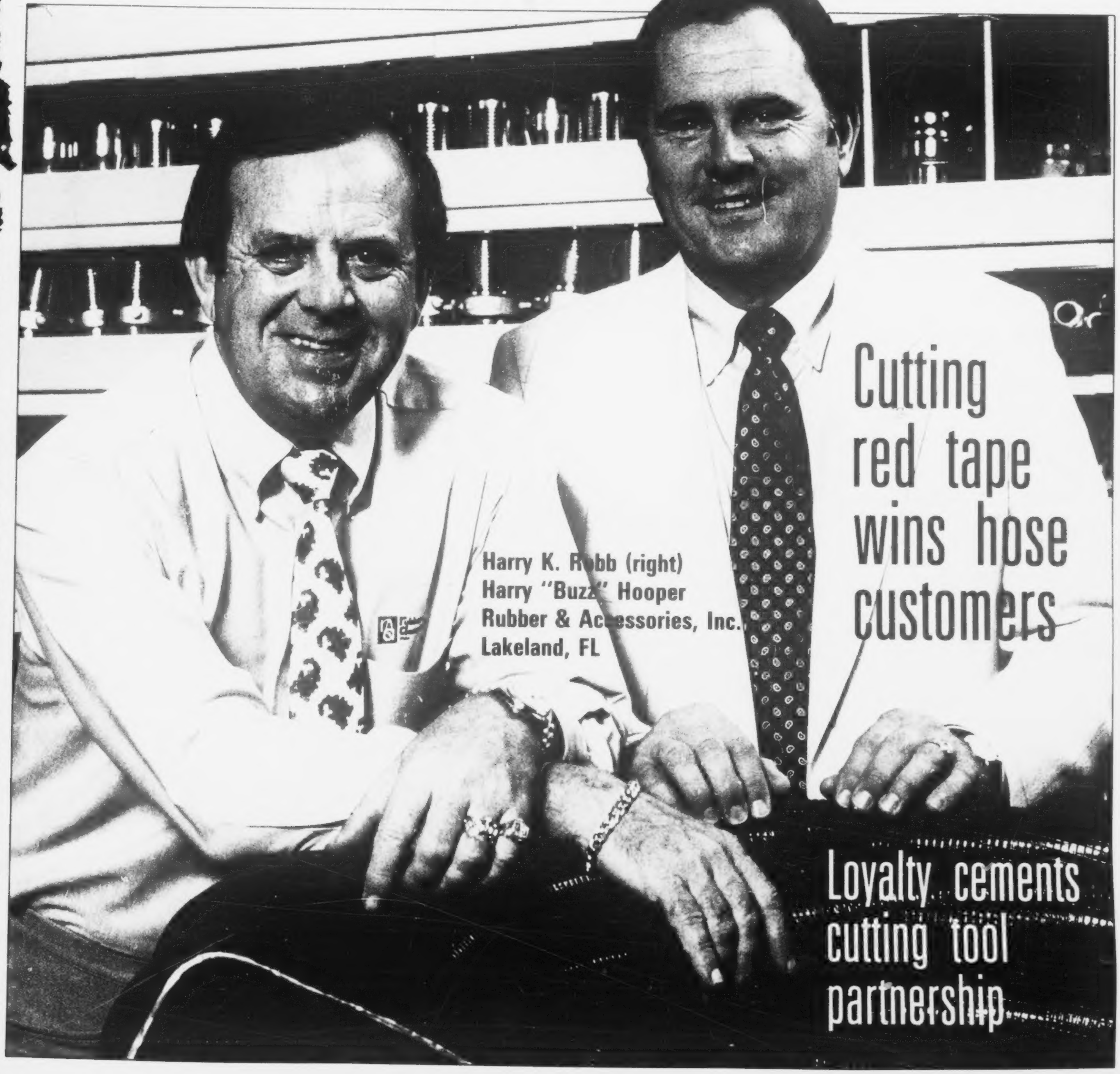
Industrial Distribution

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRI

SPECIAL:

Hose and Accessories Buyer's Guide



Harry K. Robb (right)
Harry "Buzz" Hooper
Rubber & Accessories, Inc.
Lakeland, FL

Cutting red tape wins hose customers

Loyalty cements cutting tool partnership

Industrial Distribution®
THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

VOL. 79, NO.3 MARCH 1990 A CAHNERS PUBLICATION

Harry Hooper (left) and Harry Robb give customer needs personal attention.

Cover photography by Florida Fotobanc, Inc.

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Running a lean operation makes it easy for customers to buy which, in turn, has helped to generate growth for Rubber & Accessories, Inc.

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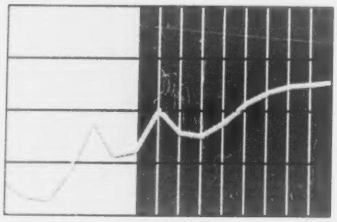

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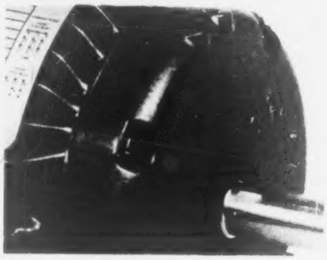

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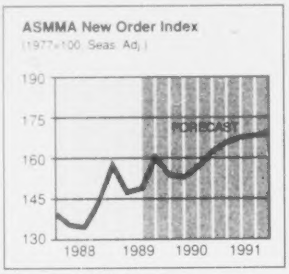
BUSINESS REPORT

BY KRIS BLEDOWSKI

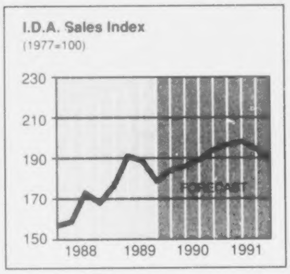
Expansion slow until 3rd Q

Overall 1990 growth projected at 2.4%

The national economy has been slowing for a full year now, even though the general indicators have only recently shown signs of weakening. Industrial production has grown in the last three months but manufacturing utilization has been going down. It peaked in January, 1989 at 84.7%. In January of this year it stood at 83.1%. While the service sector has been performing better than the average, manufacturing has been sluggish. Distributors should anticipate further weakness in the industrial sector, at least through the middle of this year.



Data source: ASMMA
Forecast source: Cahners Economics



Data source: I.D.A.
Forecast source: Cahners Economics

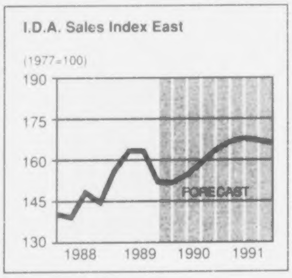
The national I.D.A. index fell 9.8 points in the fourth quarter but was still 10.7 points above the corresponding period a year before. The average growth rate for 1989 was 11.9%. We forecast sales to climb 2.4% this year and 6.3% in 1991.

The Eastern Region registered consecutive monthly sales declines through the fourth quarter. Sales in this region suffered from a general weakness of aerospace in New England. Our forecast calls for growth of 5.3% this year and 5.5% in 1991.

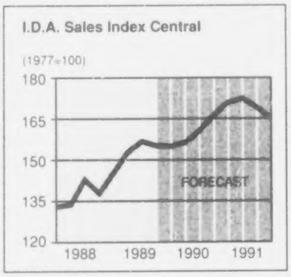
The Central Region held a steady growth path in the fourth quarter. I.D.A. sales picked up in this period, gaining 7.2% over the third quarter. In December, sales were up 23.9% over the same month a year before. The growth rate will decrease marginally, from 10.8% in 1989 to 5.4% this year, then is expected to rebound to 7.8% in 1991.

Growth in the South advanced to a rate of 7.3% in the fourth quarter. On an annual basis, this region was up 10.8%. The booming heavy industries of the Mid-West and South strengthened industrial distributor sales in 1989 and the prospects for the next two years are moderately good. Our forecasts remain 5.4% this year and 7.8% in 1991.

Sales in the West plummeted 8.9% in the fourth quarter compared to the same period a year ago. However, on an annual basis, I.D.A. figures were 5.8% higher in 1989 than in 1988. To offset the strong pace of construction, manufacturing is going to suffer in the first half of this year, delaying the recovery. Our forecast calls for a gain of 4.9% this year and 6.9% in 1991. ☐



Data source: I.D.A.
Forecast source: Cahners Economics



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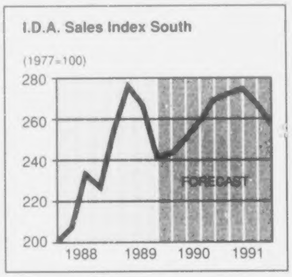
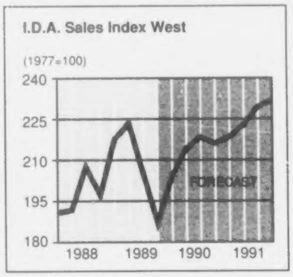
Forecast source: Cahners Economics



Data source: I.D.A.
Forecast source: Cahners Economics



Data source: I.D.A.
Forecast source: Cahners Economics

	SALES			RECEIVABLES	INVENTORY
(1977=100)	Dec. 1989	Nov. 1989	Dec. '89 vs Dec. '88 % change	Dec. 1989 days	Dec. 1989 % change
TOTAL	171.6	189.8	11.9	44.6	−0.4
EAST	143.7	154.3	11.0	52.6	−1.3
SOUTH	231.1	243.6	19.7	41.0	+0.2
CENTRAL	148.8	174.6	11.5	44.5	−0.1
WEST	180.0	191.3	5.8	39.9	−0.2

SOURCE: Industrial Distribution Assn.

SUPPLY OUTLOOK

BY KRIS BLEDOWSKI

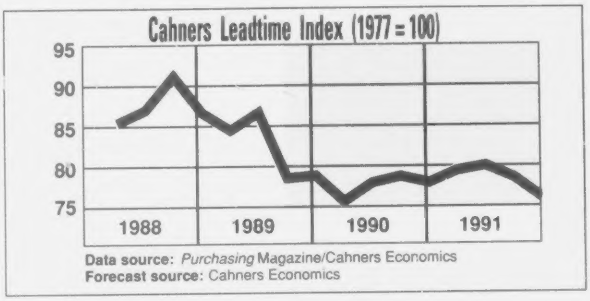
Strong second half

Leadtimes will continue to shorten

For each month since May 1989, Cahner's Leadtime Index of 125 Industrial Materials has been lower than previous year numbers.

The January 1990, indexwas 17% below the January 1989 number. This was because 84% of the 125 materials covered in the survey had shorter leadtimes than they had one year earlier. Over 80% of the materials in the survey had shorter leadtimes in January, 1990 than in December, 1989.

Clearly, these numbers indicate that the economy's record 8 year growth streak is feeling its age. But will it falter?


Cahners Leadtime Index (1977 = 100)

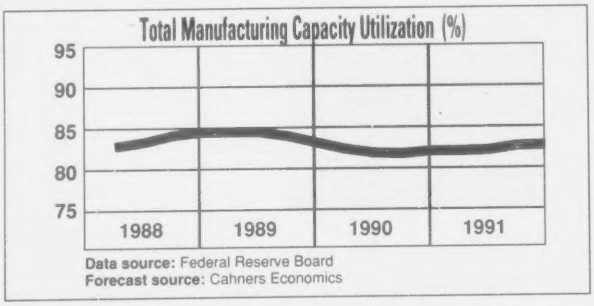
Data source: *Purchasing* Magazine/Cahners Economics
Forecast source: Cahners Economics

Probably not. Cahners Economics continues to forecast slow, but positive, real growth for 1990. While the first half of the year will be weak, expect the economy to strengthen after mid-year.

Distributors will notice that most manufacturers will adjust inventories in early spring in anticipation of production expansions. Exporting industries will expand first, followed by consumer and industrial component markets.

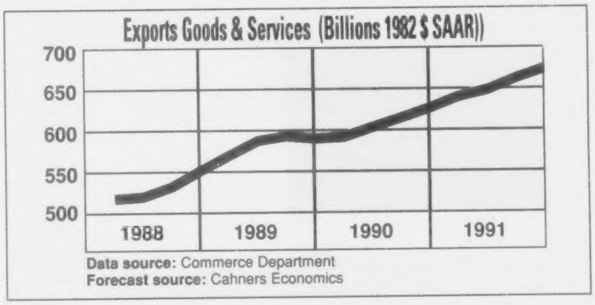
As a result, expect leadtimes to stretch slightly in the third quarter, but not enough to reverse the downward trend. Look for delivery times to decline 5.5% this year, with very little change in 1991.

The industrial materials and components industries will outpace general manufacturing in 1990, as the low level of the dollar boosts exports. Output of plastic products will be very strong, rising 6.4% this year. Chemicals will not be far behind, posting a 5.1% gain in production. Paper production will also see a healthy increase of 3.8%, while the output of electronic components sags 2.2%. Growth in the machinery and equipment markets will slow as the strong investment levels of the past few years are slashed. OEM production will rise 2.4% and the output of machinery will inch up 2.7%.


Total Manufacturing Capacity Utilization (%)

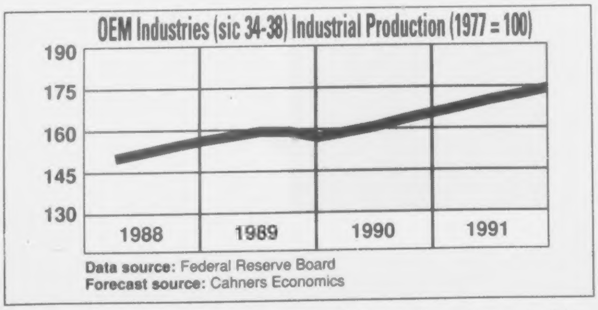
Data source: Federal Reserve Board
Forecast source: Cahners Economics

Capacity utilization will hover near 82% in '90, and pick up slightly in '91.


Exports Goods & Services (Billions 1982 $ SAAR))

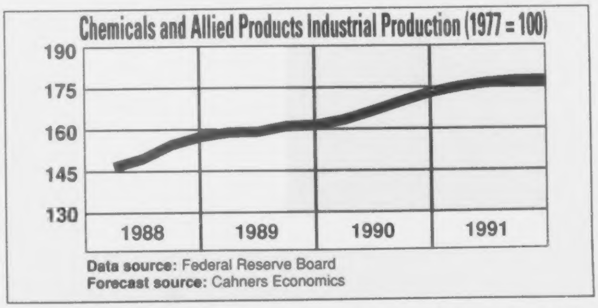
Data source: Commerce Department
Forecast source: Cahners Economics

The dollar will change very little in international markets this year, helping exports to continue their solid growth.


OEM Industries (sic 34-38) Industrial Production (1977 = 100)

Data source: Federal Reserve Board
Forecast source: Cahners Economics

OEM industries will follow other durable goods sectors, inching up only 2.4% this year. Next year will be better.


Chemicals and Allied Products Industrial Production (1977 = 100)

Data source: Federal Reserve Board
Forecast source: Cahners Economics

Chemicals will be one of our strongest industries in '91, with output surging 5.1%. Exports will lend this sector strength.

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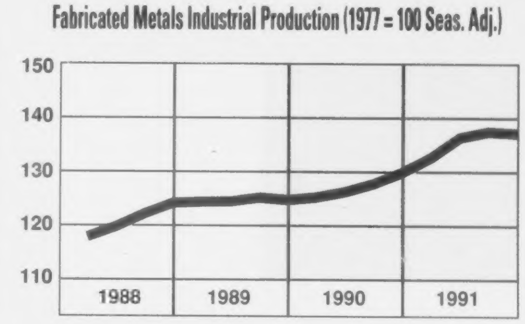
SUPPLY OUTLOOK

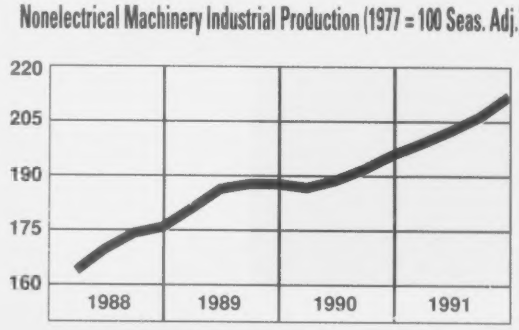
Durable goods to make slow progress in 1990

Industrial production of durable goods used by manufacturing will be stifled by cuts in investment this year. OEMs will increase output only 2.4%, down from a 6.7% jump in 1988. Production of non-electrical machinery (which covers categories like machine tools and metalworking machinery) will creep up by 2.8%, while output of fabricated metals inches up 2.1%. Some sectors of fabricated metals will be strong; output of hardware tools will jump by 7.2%. Expect production of structural metal products to gain 2.8%, while the output of fasteners and stampings slides 0.2%. ☐



Data source: Federal Reserve Board
Forecast source: Cahners Economics

Output of fabricated metals will be slow this year, but economic strength in 1991 will boost levels by 6.8%.



Data source: Federal Reserve Board
Forecast source: Cahners Economics

The broad category of non-electrical machinery will inch up by 2.8% in 1990, but will perform well in 1991.

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APRIL 1990
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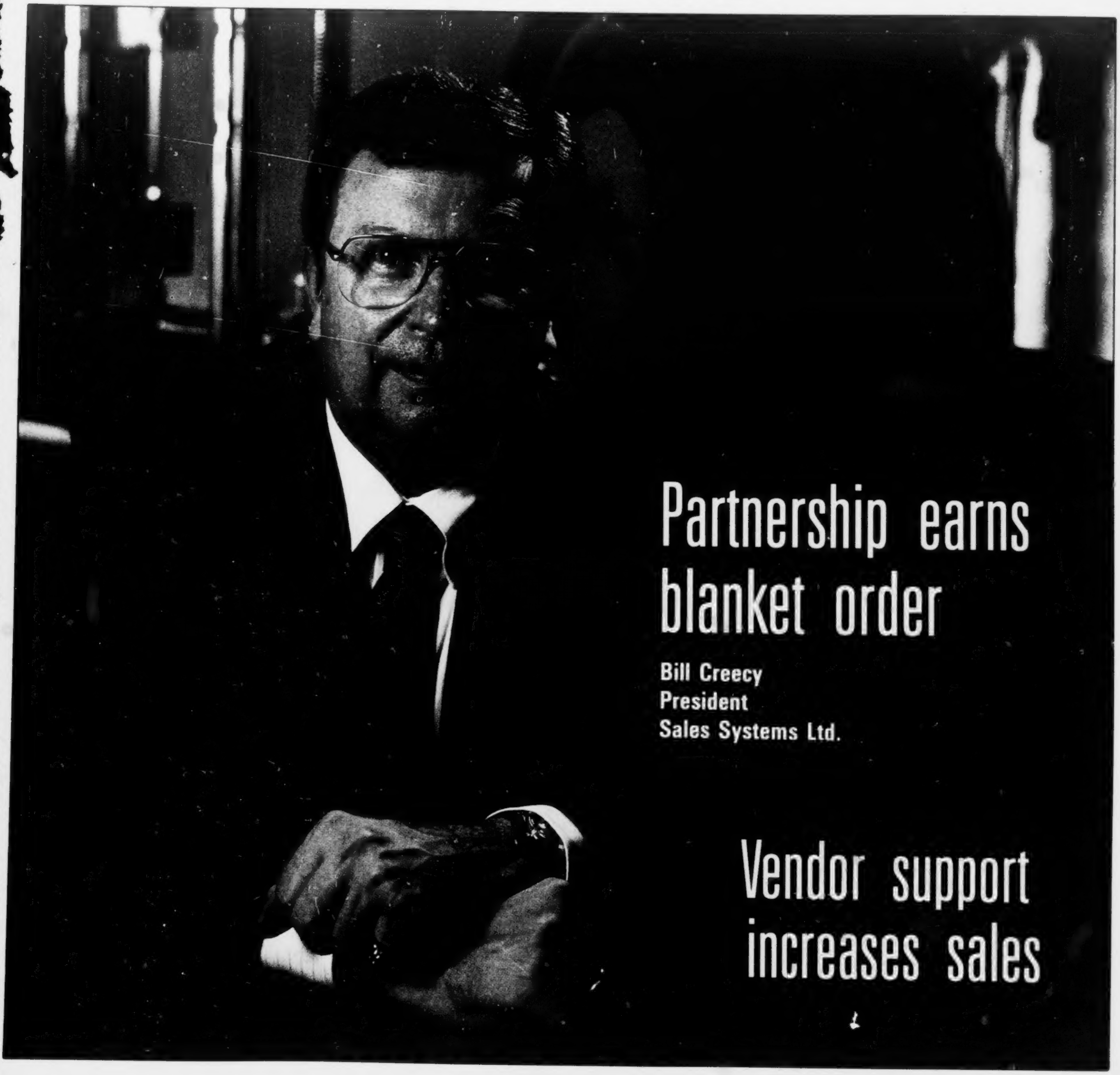
Industrial Distribution

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

SPECIAL:

Outlook for hand tool sales



Partnership earns blanket order

Bill Creecy
President
Sales Systems Ltd.

Vendor support increases sales

Industrial Distribution

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

VOL. 79, NO.4 APRIL 1990 A CAHNERS PUBLICATION

Bill Creecy is collecting dividends from his investment in quality control at his Portsmouth, VA distributorship.

Cover photography by Dennis Brack

PARTNERING PROFILE

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When a quality conscious distributor combines with a top-notch supplier—forward-thinking customers get what they need.

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To compensate for lost tannery business, Boyle Machinery used Permatex products to attract new customers.

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Look for petrochemical and public utility markets to offset possible lags in construction demand for hand tool products.

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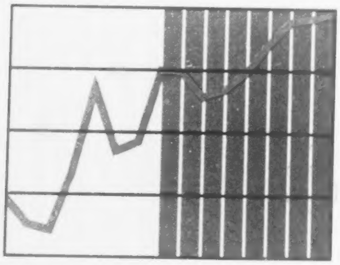

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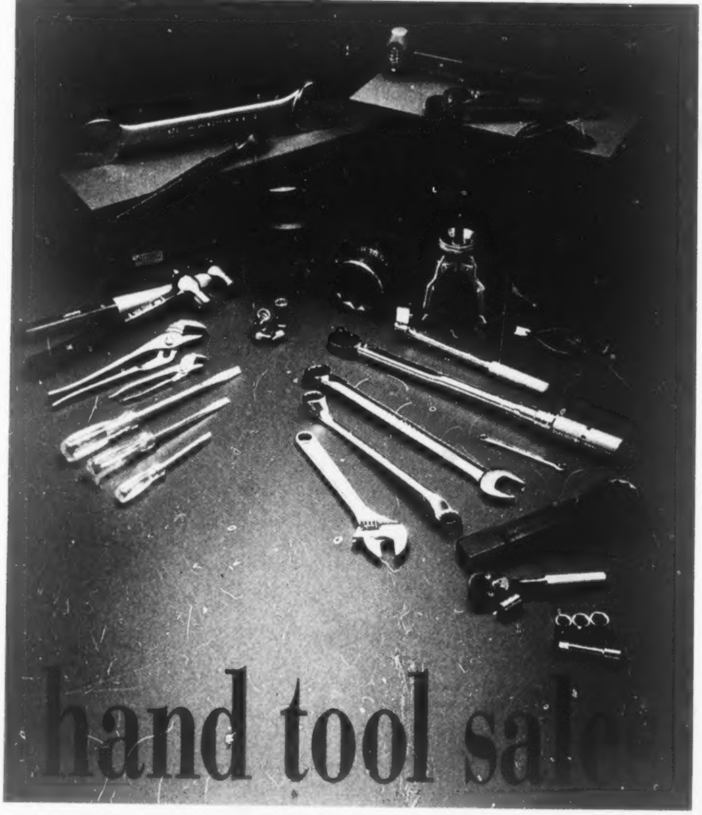
Stability seen for hand tool sales



Even if construction lags, suppliers agree that petrochemical and utility activity will keep hand tool sales at least flat, or even up slightly, during 1990.

By George M. Fodor, Managing Editor

If you want an overall picture of the 1990 hand tool market, look at two specific trend lines. Expert planners among suppliers suggest you track both fixed-rate home mortgages and the gross national product (GNP) with respect to how these indicators effect your market area.

When you see lenders in your area drop 30-year, fixed-rate home mortgages below 11% and move them toward 9%, get your hand tool and related inventory ready to meet sharply increased demand.

If lenders in your area keep mortgage rates around 11% or higher, look for solace in the petrochemical and utility sectors of the GNP. Regardless of what construction does, strong performances in the oil patch and energy areas are expected to keep hand tool sales growth equal to or slightly above the inflation rate.

No matter what hand tool markets do, experts add, you'll need professional-grade merchandising to help you capture your share of whatever business eventually does become available.

REGIONAL DIFFERENCES

With apologies to The Beach Boys, this year's refrain among hand tool distributors might well be *Wish We All Could Be California Bound.* Vendors from the Magna Div. of Vermont American to Sandvik look for construction activity to be strongest along the West Coast, in general, and within the Golden State, in particular.

Other pockets of strength are seen in the Southeast, especially Florida as well as in the Carolinas.

Lackluster building is projected for the Mid Atlantic region and, unanimously, New England. Some planners, in looking at the Northeast, hold out hope for Boston's Tunnel and Central Artery mega-projects, but the long-term nature of those efforts dictates that their impact on the hand tool market will be felt more in the future than in the this year's numbers.

Regionalism also shows up in projections for non-construction activity. Tim Walsh, of Stanley-Proto, looks for the aviation and aerospace sectors to be strong, and John Drew, of Ridge Tool, sees the oil business and the pulp and paper industry as making major contributions to his firm's expected 5% real growth by year's end.

A resurgent oil patch is also expected to help J.H. Williams Co. log an 18 to 20% increase in sales in 1990, according to Vice President of Sales, James Gray. New, horizontal drilling techniques comprise only one of the factors which Sandvik's David Yerrid attributes to rebounding oil business and the resulting increased demand for industrial tools among drillers and ancillary firms.

Hand tool buyers need to be made aware of the difference between price and cost, says Magna's Ralph Cox.

DEFINING TERRITORIES

As discount houses and buying clubs chip away your low-end markets, look to suppliers for increasing amounts of aid in reaching your large contractor and industrial customers.

In preparing for 1990's selling, suppliers have developed a wide variety of professional-class merchandising tools to help their distributors capture specific niches. As a result, you now have an opportunity to take advantage of support that matches your specific sales situation.

For example, Sandvik's Yerrid describes his firm's overall focus as encompassing industrial, maintenance, repair, construction, and heating/ventilating/air conditioning buying influences. "In each group," he says, "we want to make sure our distributors are able to talk intelligently."

Your salespeople, Sandvik understands, "want to have the right information at their fingertips." Reflective of this sensitivity, Sandvik has launched a series of in-house hand tool training seminars.

"We offer a school about every six weeks," Yerrid says. "We try to customize the school to the type of distributor who's coming. Some distributors sell files. Some sell saws. We tailor each training manual as much as possible, and we focus not only on how to sell our hand tools, but also on how they're used in the field."

Ralph Cox, of Vermont American's Magna Div., says that "the industrial or construction distributor who's selling to the professional wants to present his product offerings in a professional manner." According to Cox, one of the best ways to communicate the fact that you have a better product is to display it in a professional package.

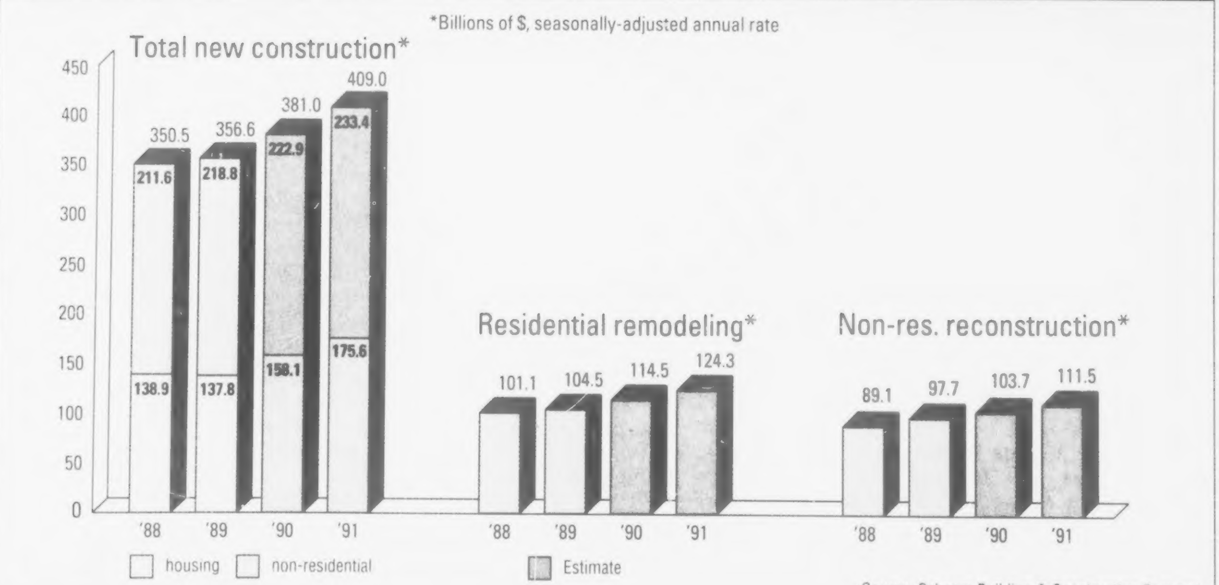
Retailing techniques are not new to industrial distribution, but they are becoming more widely used by a broader spectrum of distributors. As Cox explains, "In the past couple of years, probably due to price clubs and similar operations, distributors have been forced to have display areas and to merchandise product."

Magna's "free sample" offer serves as an intriguing approach to merchandising. The philosophy behind the offer, Cox says, is the belief "that the business is distributor driven. We supply a wide range of products in a given category, any quality level a user could want. " "If a customer is using a conventional carbide saw blade, and we give him a chance to use a Dyanite carbide blade, we give the distributor opportunity for greater profit."

For their part, distributors can capitalize on offers such as Magna's sampling program by focusing the user's attention, as Cox says, "on the best cost product *vs.* the best price product."

In other words, this year's hand tool market is expected to respond to sales pitches that emphasize productivity, uptime and total value rather than price. ☐

WHERE CONSTRUCTION'S DOLLARS ARE



Source: Cahners Building & Construction Forecast

With extremes of activity on the West Coast balanced by inactivity in New England, overall new construction, remodeling and renovation are projected to post moderate gains in each of the next two years.

BUSINESS REPORT

BY KRIS BLEDOWSKI

Time to rebuild inventories

'90 recession unlikely, expansion seen in second half.

While a soft landing for the economy still seems probable, the fourth-quarter '89 GNP figures showed an economy dramatically slowing down. Inflation-adjusted GNP grew at an annual rate of only 0.9% during that period. At the same time, inventories did not grow as much as had been reported before, easing fears of overproduction and a recession. Durable goods inventory accumulation was 5.5% higher in the fourth quarter than a year previous but the rate of growth has been slowing for six months.

On the other hand, shipments have been falling. Durable goods shipments fell 0.7% in the fourth quarter and were only 1.3% higher than in the fourth quarter of 1988. We expect growth to slow to 4.3% this year, down from 6.0% in 1989.

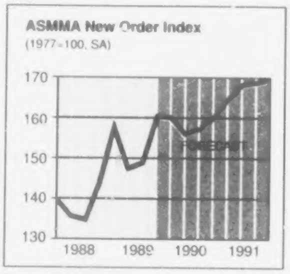
The result has been a rising inventory-to-shipments ratio. From 1.53 in December 1988 it rose to 1.6 a year later, meaning that it would take 1.6 months to liquidate all inventory. With our forecast of a rebound in shipments and a downward adjustment in inventory, the ratio is bound to go down, rather than up. It is possible that by the end of this year it will be back to 1.53.

What this means to industrial distributors is that now is the time to restock inventories in anticipation of an expansion, which we believe will come in the second half of this year. For most durable goods producers and distributors, capacity expansion should also be a priority.

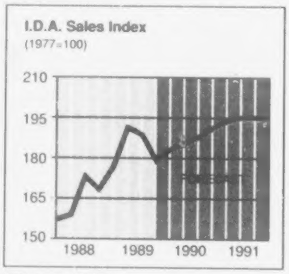
Another sign of a mild business cycle is the unfilled orders-to-shipments ratio. Typically, strong excess demand precedes a full-scale recession. Backlogs skyrocket and, by the time suppliers are aware of the reversal in growth rates, inventories are out of control.

In the two previous recessions, the ratio of unfilled orders-to-shipments in manufacturing climbed in the period prior to recession. In contrast, the period before 1986 exhibited little or no growth in backlogs relative to shipments, and no recession resulted.

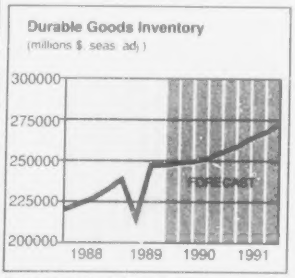
The current situation resembles 1986. In fact, the ratio has actually declined over the two years prior to today's industrial slowdown. In addition, capacity utilization has been easing, and wage/price inflation has stayed in check. ☐



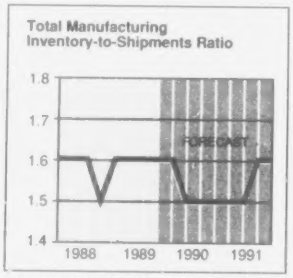
Data source: ASMMA
Forecast source: Cahners Economics



Data source: I.D.A.
Forecast source: Cahners Economics



Data source: Dept. of Commerce
Forecast source: Cahners Economics



Data source: Dept. of Commerce
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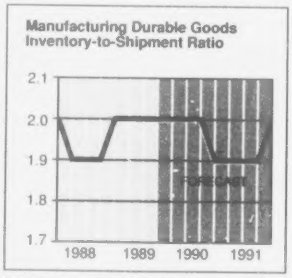

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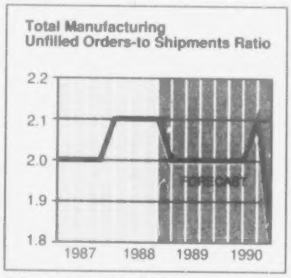


Data source: Dept. of Commerce
Forecast source: Cahners Economics

	SALES			RECEIVABLES	INVENTORY
(1977=100)	Jan. 1990	Dec. 1989	Jan. '90 vs Jan. '89 % change	Jan. 1990 days	Jan. 1990 % change
TOTAL	191.7	171.6	8.2	37.5	+0.5
EAST	159.2	143.7	2.2	47.5	-0.2
SOUTH	254.0	231.1	1.0	35.8	-0.1
CENTRAL	169.1	148.8	12.4	36.2	+0.9
WEST	192.8	180.0	-11.7	33.2	-0.8

SOURCE: Industrial Distribution Assn.

◄ CIRCLE NO. 59

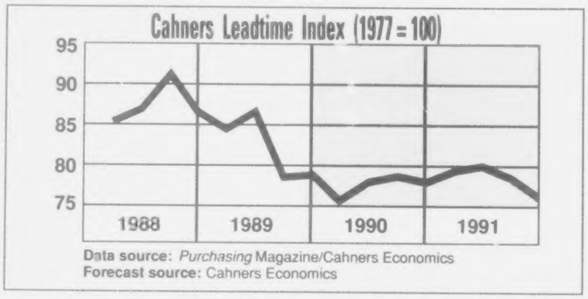
SUPPLY OUTLOOK

BY KRIS BLEDOWSKI

Inflation will moderate

Fears of run-away prices unwarranted.

The economy's slack in the past several months has caused operating rates to slip. Capacity utilization for all industries began 1989 at 84.3% and stood at 81.9% in January 1990. Many economists believe that the strong increases in producer prices are the result of continued high rates of capacity utilization as well as high raw material prices. However, with capacity utilization falling and forecasted to rise only 1.3 points by the end of the year to 83.2%, fears of run-away inflation are unwarranted.



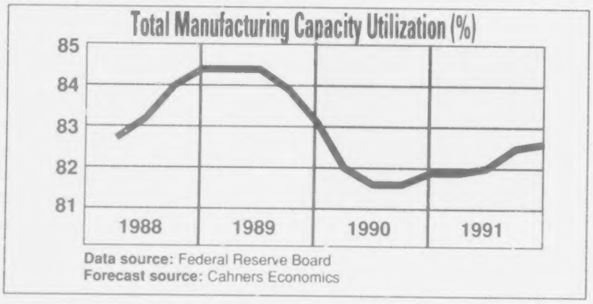
Cahners Leadtime Index (1977 = 100)

Data source: *Purchasing* Magazine/Cahners Economics
Forecast source: Cahners Economics

The high inflation numbers in the beginning of the year were caused by skyrocketing food and energy prices. As winter runs its course, prices should stabilize, so don't expect the Federal Reserve Board to hike interest rates to combat inflation. Since supply conditions seem to be loosening, our forecast of producer prices calls for a 3.0% increase in 1990, well below the 5.1% jump in 1989. The index for machinery and equipment is expected to jump by 3.5%, while fabricated metal products will experience a 2.5% price increase this year. In general, most price increases will be difficult to maintain until after mid-year, when economic growth will start to accelerate.

A recent survey by *Purchasing* magazine indicates that over 75% of purchasing managers experienced stable or falling prices from January to February 1990. Similarly, the commodity price index from the National Assn. of Purchasing Managers remained well below the inflation signaling 50 mark in the beginning of the year, and is forecasted to stay there until the end of 1990.

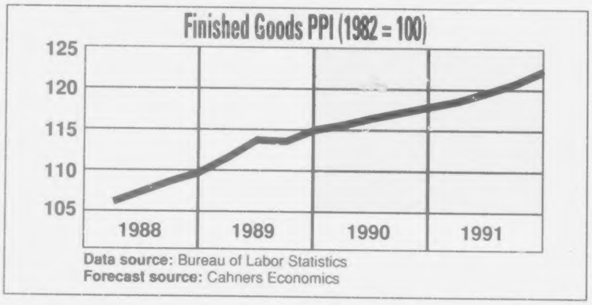
The bottom line is that inflation will be brought under control and interest rates will begin to ease. While increases in producer prices will take time to drop off, fears of 1970's-type 'stagflation' are unwarranted without some outside shock such as rising OPEC prices.



Total Manufacturing Capacity Utilization (%)

Data source: Federal Reserve Board
Forecast source: Cahners Economics

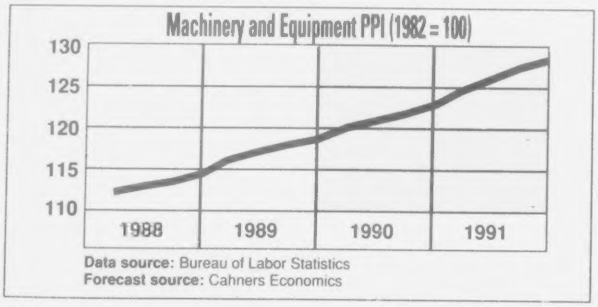
Capacity utilization will pick up slightly in 1990 as the economy warms, rising to 83.2%.



Finished Goods PPI (1982 = 100)

Data source: Bureau of Labor Statistics
Forecast source: Cahners Economics

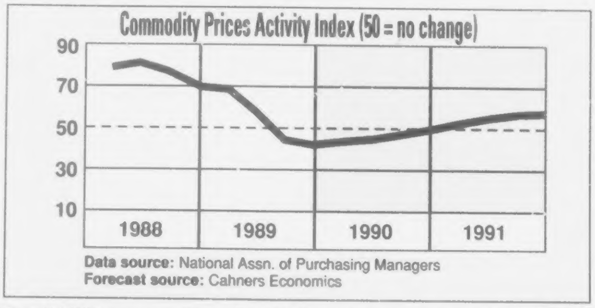
Producer price increases for all finished goods (including food & energy) will be tamed in '90.



Machinery and Equipment PPI (1982 = 100)

Data source: Bureau of Labor Statistics
Forecast source: Cahners Economics

Price increases on machinery and equipment will be small due to slack demand in 1990.



Commodity Prices Activity Index (50 = no change)

Data source: National Assn. of Purchasing Managers
Forecast source: Cahners Economics

The NAPM commodity prices index will stay below the inflation signaling 50 mark until 1991.

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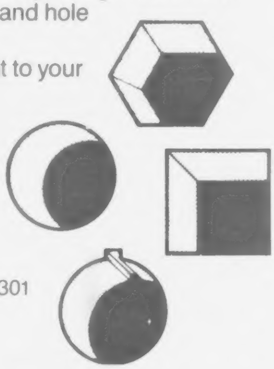

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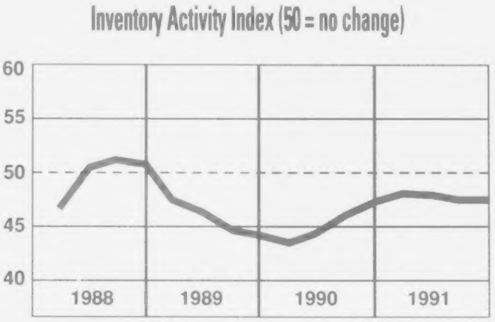
SUPPLY OUTLOOK

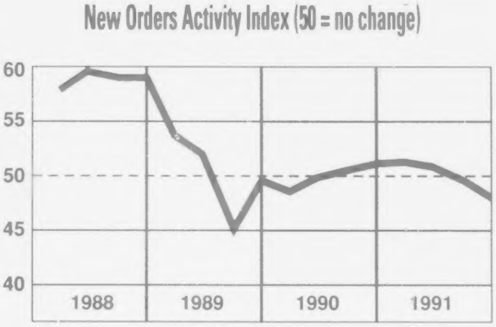
New orders will help economy

Stable inventories suggest that this downturn in the business cycle will not be as severe as many in the past. Modern inventory control techniques have helped eliminate inventories as a wildcard in the business cycle. For example, a recent survey by *Purchasing* magazine indicated that 52% of purchasing managers are experiencing steady inventory levels. Similarly, the NAPM inventory index is forecast to finish 1990 near 47.4, just below 50 (indicating no change in stocks). Both surveys point to stable inventories that should not disturb new orders, helping the economy get back on its feet in 1990. ☐



Data source: National Association of Purchasing Managers
Forecast source: Cahners Economics

The NAPM inventory index will stay near 50 in the second half of '90, a sign of stable inventories.



Data source: National Assn. of Purchasing Managers
Forecast source: Cahners Economics

The NAPM new order index will rise above 50 in the 3rd quarter, indicating increasing levels of bookings.

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CLIFTON'S VIEW

BY ROBERT G. CLIFTON

Managing your most important asset

People make almost all the difference in a service business.

Recently I had the pleasure of spending four days in my local hospital. Pleasure?—you say with a tone of disbelief. Yes, pleasure, I said, and I chose the word carefully.

It was a pleasure to be a patient in a hospital where all the personnel, from doctors to housekeepers, were competent, pleasant, cheerful, energetic, and personal-service minded. The comparison with my other hospital sojourns was as different as day and night.

Should I have to enter a hospital again at some future date, my selection has already been made. Wouldn't any industrial customer make the same choice between distributors given a perceptible gap in service orientation?

What led to these paragon personnel all being located in one hospital? Was it luck? Not likely. Was it higher pay? Not likely given the cost pressures on hospitals today. Then what was it?

I believe it all started with the hospital management. At the end of my admissions interview I was handed a personalized note of greetings from the administrator. It hoped my stay would be as pleasant as possible. If anything troubled me, please phone him at extension 1234.

After admission, I became aware that operations ran smoothly and on time. Meals arrived almost exactly on time. Medication came when it was specified. Everything I could observe ran as a jeweled watch. There had to be top notch management to insure such results.

I also noticed that when patients are treated well, their moods and expectations rise, making it easier for the nurses to deal with them. All aspects of the hospital function ran at high efficiency, not only the personnel attitudes.

Employees of an industrial distributor are not hidden away in a basement shovelling coal. Almost all of them have occasion for customer contact, including truck drivers, warehousemen and office workers. As a customer you are profoundly influenced by your impression of these contacts. Take a simple test—how much of your impression of a hotel is based on your first contact at the front desk? A lot.

PERSONNEL PRODUCTIVITY RATIO

From 1989 *Distributor Productivity Report* compiled I.D.A. Left column shows PPR for average general line industrial distributor. Right column represents achievable goals in the consultant's view. (*Less than 100% response in some categories.)

	Average*	Goal
Sales Dept.	28.8%	29%
Office Dept.	8.2	8
Warehouse	5.8	4
Delivery	1.8	2
Purchasing	3.1	3
Administration	8.8	9
TOTAL PPR	60.2%	55%

You must be competent in selecting, training and retaining people.

Competent, customer service-oriented personnel are more important for a distributor than for many businesses. Service is what you sell. Products can usually be bought from a number of competitors.

Also, bear in mind that personnel costs (salaries plus fringe benefits) are considerably more than half your total operating expenses (see box).

Remember too that if you are not competent in selecting, training and retaining people, your operation's efficiency will slide as well as the service attitudes of your employees.

Demographics show we have passed the peak of the baby-boomers entering the job market. New entrants will be smaller each year in the new decade. But take heart. Even if your ability to pay higher salaries is limited, there is much you can do to train and retain quality people.

According to Frederick Herzberg in the *Harvard Business Review*, these are the leading job satisfaction factors in the eyes of employees:

1. achievement
2. recognition
3. the work itself
4. responsibility
5. advancement
6. growth

Herzberg also probed into the leading causes of job dissatisfaction:

1. company administrative policy
2. supervision
3. relationship with supervisor
4. working conditions
5. salary

Is there room for improvement in any of these at your business?

You can't give away the store in pay boosts, we agree. But whatever you decide to do, you must monitor its effect on your Personnel Productivity Ratio (PPR) shown above. This data is extracted from the 1989 *Distributor Productivity Report* produced by the I.D.A.

These figures are easy to calculate. Simply compute the ratio of total dollar personnel costs by department to total company dollar gross margin. The quoted results are for the average general line distributor reporting to I.D.A. Lay out your numbers next to these and you will quickly see how you can measure up to your competitors. You could have a good number in one department and a bad one in another.

Space does not permit a discussion of all the steps you could take to prove your service orientation while keeping one eye on the effect of the changes on your PPR. We will discuss some of these next month.

But it is certain that many avenues are open that do not cost a dime, yet can achieve a big long run payback.

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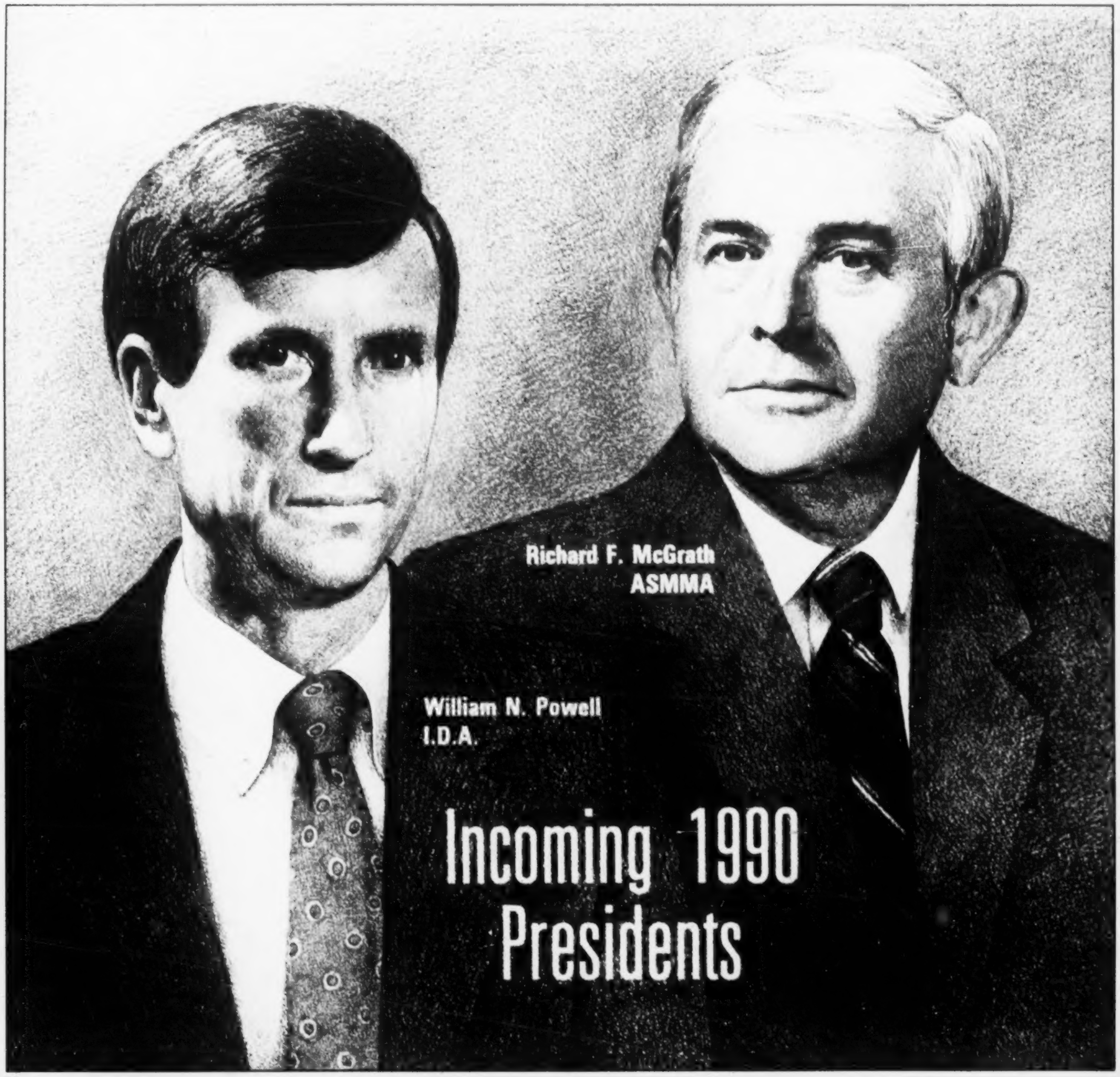
Industrial Distribution

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

SPECIAL:

The Industrial Distribution Convention



Richard F. McGrath
ASMMA

William N. Powell
I.D.A.

Incoming 1990 Presidents

Industrial Distribution
THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

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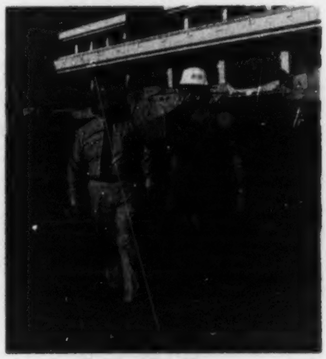
At the helm of the IDA/ASMMA Union in 1990 will be Nick Powell (left) of IDA and Dick McGrath of ASMMA.



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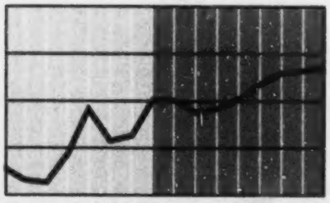

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PARTNERING

THE TIES THAT BIND

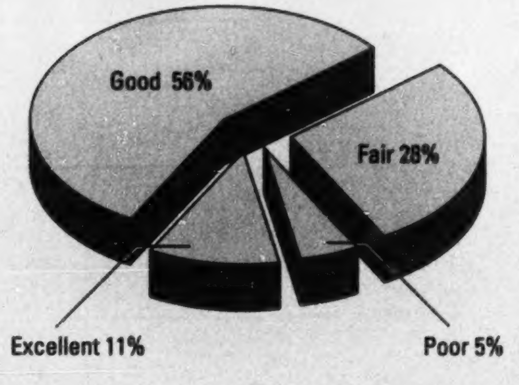
Some distributors complain that effective vendor sales support is hard to come by. The solution? Find suppliers who treat your company like a partner.

By John G.F. Bonnanzio, Associate Editor

"Mediocre." That's how Walter Bates describes the quality of sales support his company typically receives from its vendors. And it seems that the president of Nashville Rubber & Gasket Co. is not alone in that assessment. In fact, according to *ID*'s 1989 *Survey of Distributor Operations*, only 11% of industrial suppliers rated their vendors' sales support as "excellent" (see chart). Which, of course, leads to the obvious question: why such a disappointing performance?

RANKING VENDOR SALES SUPPORT

In general, most of our vendors provide the following level of sales support:



Source: ID's 1989 Survey of Distributor Operations

Needless to say, distributors and their suppliers have decidedly different views. As Bates sees it, vendors are all too willing to send inexperienced reps into the field. Of his 25 major suppliers, Bates says that only 5 or 6 are "exceptionally" well qualified. "Many of these guys are deficient in end-user contact," he complains. "They don't understand our customers' problems and it's not our job to teach them."

Unfortunately, that view seems widely held, not only by speciality distributors, but by generalists such as California's Southwest Industrial Supply House. Says president Michael Maluccio, "Our problem is with those suppliers where the total dollars aren't there. However, our top vendors are very receptive to us—they're willing to listen." In some respects, he says, relationships with manufacturers can evolve into a vicious cycle: the more his company wants to push a particular product line, the greater the need for vendor support up front. But without adequate sales volume, suppliers are sometimes hesitant to invest a rep's time and his company's resources.

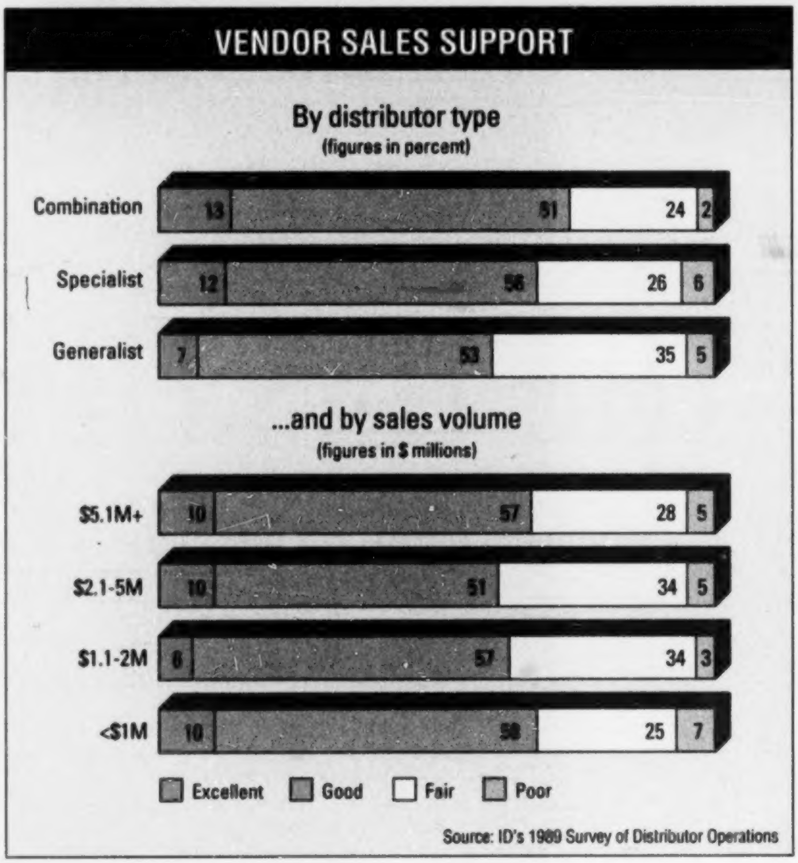
On the other hand, Maluccio appreciates the problems faced by manufacturers. "It's expensive to put a lot of people in the field," he concedes, recalling one supplier who recently had 11 reps covering 10 western states, and today has only 5. "We don't see the good people often enough. But the better manufacturers are learning to listen to their distributors."

One company with its ear to the ground is Nycoil Company, a New Jersey hose and fittings manufacturer. Says marketing manager Robert Rodgers, "The key thing we provide our distributors is good service." However, service is not restricted to delivering products on time and filling orders correctly. Rodgers says that Nycoil's responsibilities encompass consistent quality, competitive pricing, providing samples, end-user advertising, screening sales leads, and joint sales calls with distributors.

Further, the company makes its top management accessible by attending myriad industry trade shows. For example, in a typical year Rodgers will attend conventions sponsored by the Natl. Assn. of Hose and Accessories Distributors, the Natl. Fluid Power Assn., the Industrial Distribution Assn. (including regional meetings), and at local trade shows and distributors' product fairs. Says Rodgers, "Distributors have different philosophies about the value of these meetings. But those who are receptive and come to see us, they're the ones who generally produce results."

At Martin Sprocket & Gear Inc., a manufacturer of power transmission products, sales vp John Martin doesn't see a problem with his distributors. "I would say that the level of vendor sales support in the pt industry is very high." The reason? Martin explains that unlike other product lines, successful pt sales require a higher level of manufacturer-distributor cooperation. Maintaining an adequate inventory simply isn't enough, he says. "But developing sales territories, market penetration, service and training are all-important to our distributors' salesmen as well as to us."

And Martin isn't just talking. For two of the past three years the company has won the Trailblazer Award bestowed by the Power Transmission Distributors Assn. The award recognizes a manufacturer "who has demonstrated exceptional leadership, innovation and motivation"—three key ingredients of strong vendor support. Says Martin, "we see distributors as partners."



Source: ID's 1989 Survey of Distributor Operations

ATTENTION GETTERS

But not all manufacturers view their distributors quite the same way, or so says Fred Lorenz of Michigan's Saw & Specialty Corp. "We have approximately 12 major suppliers and," he grumbles, "I can't rely on them across the board." In fact, Lorenz says that only 3 of his suppliers provide "excellent" sales support, and that most are only "good."

However, as a specialty distributor, statistics show that Lorenz will get better attention from his suppliers than generalists, but not quite as much as combination houses (see chart). While 60% of general line houses rate their manufacturers with a positive sales support performance, specialists fared better with 69%, and combination houses (those who sell to non-industrial markets such as the automotive-aftermarket), were most satisfied with 74%.

Why were generalists at the bottom of the list and combination houses at the top? One explanation involves expectations. A distributor selling such relatively "low-tech" items as plumbing supplies or automotive hose to a local garage is likely to place greater value on accurate order fills and on-time delivery than technical assistance. There is simply less of a need to visit with suppliers on a regular basis.

"Sometimes distributors don't want to see their vendors at all," says Gabor Farkas of Coilhose Pneumatics. Notes the company's president, "the amount of vendor sales support a distributor receives depends on what he's selling." The fact is, he says, "some products simply don't require a lot of technical assistance. A distributor's own expertise will affect how often they want our help."

Confirms Don Rooke, vp of sales for American Saw & Manufacturing Co., "You're obviously going to give the specialists selling to the high production users more assistance because the need for technical assistance is generally greater." On the other hand, Rooke also recognizes that generalists sometimes need "a little more hand holding" because employee turnover is greater, and they must understand many more

For more information

American Saw & Mfg. Co.
301 Chestnut Street
East Longmeadow, MA 01028
Attn: Don Rooke
Circle No. 286

Coilhose Pneumatics
200 Clay Avenue
Middlesex, NJ 08807
Attn: Gabor Farkas
Circle No. 287

Martin Sprocket & Gear, Inc.
P.O. Box 888
Arlington, TX 76004
Attn: John Martin
Circle No. 288

Nycoil Company
57 South Avenue
Fanwood, NJ 07023
Attn: Robert Rodgers
Circle No. 289

Pacific Grinding Wheel Co., Inc.
13120 Highway 99
P.O. Box 468
Marysville, WA 98270
Attn: Ronald Olsen
Circle No. 290

commodity and product lines.

To deal with this problem, Rooke says that American Saw has gone to extraordinary lengths to educate both its own people as well as its distributors. The company's highly successful "University of Lenox" program trains both distributors and reps, and American Saw offers three levels of schooling for selling saw blades. In addition, 60 salesmen recently attended a one-week program devoted to better understanding the distributor's business. The program's title? "How to Work with Distributors." Says Rooke, "Clearly, we're committed to strong working partnerships."

So too is Ronald Olsen of the Pacific Grinding Wheel Co., which has been running 2½ day training seminars with distributors since 1980. Says the company's sales vp, "We organize all of our training programs to suit the distributor's needs."

For example, in addition to offering training videos on abrasives manufacturing and applications, Pacific's brochures are targeted at specific end-user industries such as automotive, welding, woodworking, and tool room and production. Classes are similarly organized, and expenses are shared—housing is picked up by Pacific and the distributor pays for transportation to the manufacturers' facilities in Marysville, WA.

But despite manufacturers redoubling their sales support efforts (as well as reconsidering and reorganizing their traditional vendor-retailer relationships), some distributors remain unimpressed. Says Dick O'Connell, president of Seattle's Abrasives Northwest, Inc., "Training is not as good as it used to be. The onus of learning new products and their applications now rests more squarely on the distributor's shoulders."

Because so many manufacturers have cut back on the number of their field reps, O'Connell believes that even the distributor's customers have come to expect the least in terms of vendor sales support.

But there is a silver lining. Manufacturers and distributors with strong working partnerships based on mutual respect are likely to develop competitive advantages in areas ranging from product knowledge and applications to credit assistance and inventory control. Observes Pacific's Ronald Olsen, "I'm glad we're providing the distributor support. And I'm happy to hear that some of our competition is not." ☐

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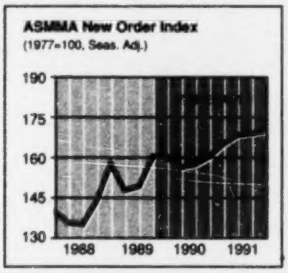
BUSINESS REPORT

BY KRIS BLEDOWSKI

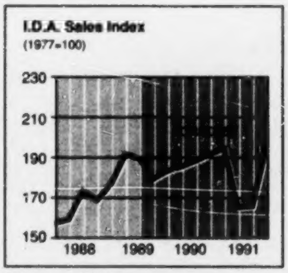
"Core" inflation slows

Prices for intermediate materials will rise less.

When producer inflation rates for finished products are adjusted for volatile food and energy components, this 'core' series has shown higher overall rate of change than has the unadjusted index since 1982. This somewhat surprising fact is explained by a drop of energy and food prices between mid-1984 and the beginning of 1987. However, since 1989 the overall index has risen slightly faster than the adjusted one for the first time in a decade.


ASMMA New Order Index
(1977=100, Seas. Adj.)

Data source: ASMMA
Forecast source: Cahners Economics


I.D.A. Sales Index
(1977=100)

Data source: I.D.A.
Forecast source: Cahners Economics

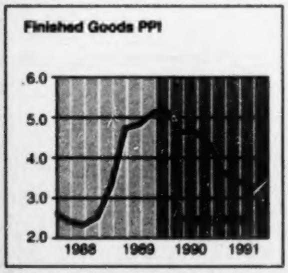
This seeming aberration was caused by the drought of 1988 and oil price hikes which occurred roughly at the same time. As a result, inflation rates for these commodity groups were higher than that for the rest of the economy, pushing up the total index.

The trend for the intermediate goods is similar, but the core inflation for intermediate goods has turned below the total index only in the past quarter. This difference in timing provides a partial proof that final producers were hiking prices above those seen at intermediate stages of processing.

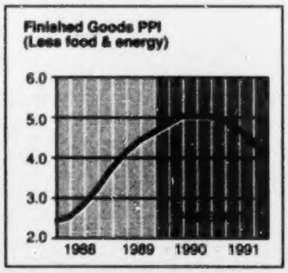
Finished goods were 5.1% more expensive in 1989 but only 4.6% dearer if food and energy had been excluded. Cahners forecasts all producer prices to rise 4.3% this year and 3.5% in 1991. Finished goods less food and energy will be 5% more expensive this year and 4% in 1991.

On the other hand, inflation for industrial machinery and components has been more muted for the past three years. The producer price index for machinery and equipment was only 3.8% higher in 1989 than it had been in the preceding year. The corresponding previous-year comparison rates were 2.7% and 1.5% for 1988 and 1987, respectively.

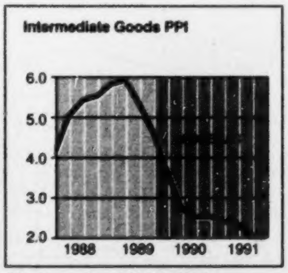
The reason for low inflation in manufacturing has been spare capacity and ample labor pool (see Supply Outlook). Wages have been growing mainly in services, while manufacturing inflation-adjusted compensation remained flat. In addition, in spite of a mini-boom, manufacturing industries have not run out of capacity except in process sectors like paper and chemicals. As a result, there was no pressure on prices from the supply side. □


Finished Goods PPI

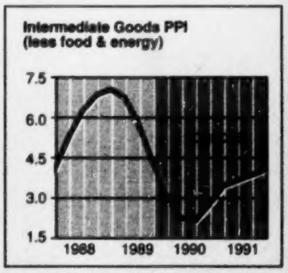
Data source: Bureau of Labor Statistics
Forecast source: Cahners Economics


Finished Goods PPI
(Less food & energy)

Data source: Bureau of Labor Statistics
Forecast source: Cahners Economics


Intermediate Goods PPI

Data source: Bureau of Labor Statistics
Forecast source: Cahners Economics


Intermediate Goods PPI
(less food & energy)

Data source: Bureau of Labor Statistics
Forecast source: Cahners Economics

	SALES			RECEIVABLES	INVENTORY
(1977=100)	Feb. 1990	Jan. 1990	Feb. '90 vs Feb. '89 % change	Feb. 1990 days	Feb. 1990 % change
TOTAL	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
EAST	180.5	150.2	6.9	47.9	+0.8
SOUTH	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
CENTRAL	180.8	180.1	10.3	40.6	−1.8
WEST	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

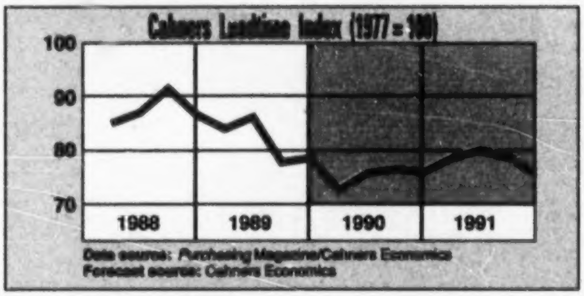
SOURCE: Industrial Distribution Assn.

SUPPLY OUTLOOK

BY KRIS BLEDOWSKI

Mfg. employment holds steady

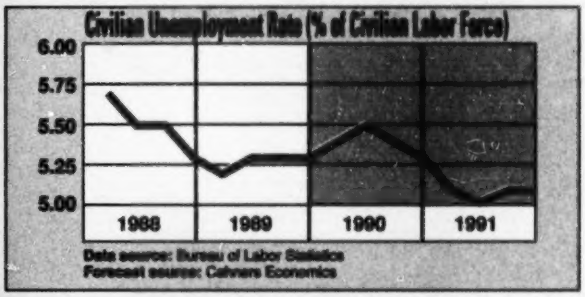
Outlook for construction brightens.



Data source: *Purchasing Magazine*/Cahners Economics
Forecast source: Cahners Economics

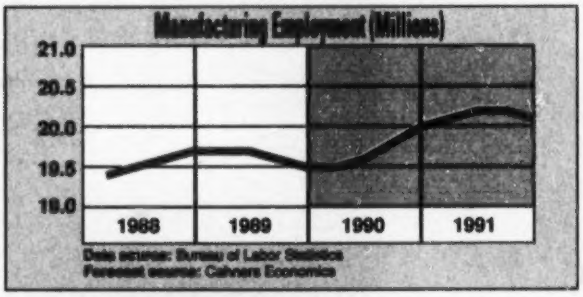
The civilian unemployment rate is generally a reliable indicator of economic downturns. During the recession years of 1975 and 1982, unemployment averaged 8.5% and 9.7% respectively. This year's employment outlook is very rosy when examined from an historical perspective; the unemployment rate is expected to be only 5.4%, up slightly from 1989's rate of 5.2%. Manpower, Inc., recently conducted a hiring expectations survey during the first quarter of 1990 and found that plans to hire new employees were only marginally below those of first quarter 1989, indicating a soft landing for the economy rather than a recession.

This year about 20.3 million civilians are expected to be unemployed in each quarter. Thanks to continued growth of available jobs, however, this will translate to a 5.4% unemployment rate, only a 2.8% increase from 1989. Most of the employment growth will be in the service sector, while employment in the goods-producing sector (primarily construction and manufacturing) will inch up 0.6%. Manufacturing employment stood at 19.6 million in 1989, will increase to 19.7 million this year, and is expected to climb to 20.1 million in 1991. In addition, construction employment will rise 2.1% in 1990 on the strength of a rebounding residential market. Job growth in the manufacturing sector will inch up by 0.6%, reflecting this year's slump. Expect jobs to grow by 2.0% in 1991, however, as the economy warms up. Since the economy's soft-landing will keep the unemployment rate steady, wage increases will not be severe. The average hourly wage in private industry is projected to rise 3.6% to $10.00. The employment cost index for goods-producing industries, which measures changes in benefits, salaries and non-salary wages, is also expected to rise by only 3.6%.



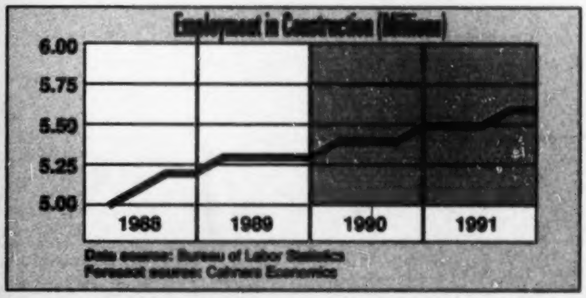
Data source: Bureau of Labor Statistics
Forecast source: Cahners Economics

The unemployment rate will inch up slightly this year, but the economy's soft landing will keep it under control.



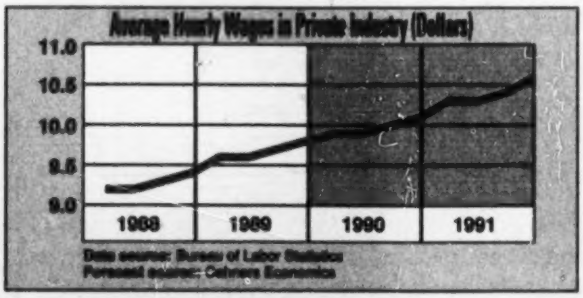
Data source: Bureau of Labor Statistics
Forecast source: Cahners Economics

The number of jobs in manufacturing will inch up 0.5%, hovering around 20.1 million each quarter.



Data source: Bureau of Labor Statistics
Forecast source: Cahners Economics

Employment in construction will jump by 2.1% in 1990, despite slack spending in many areas around the country.



Data source: Bureau of Labor Statistics
Forecast source: Cahners Economics

Hourly wages in private industry will rise a moderate 3.5%, tamed by the excess capacity in the labor market.

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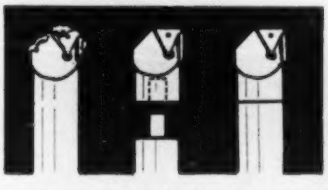

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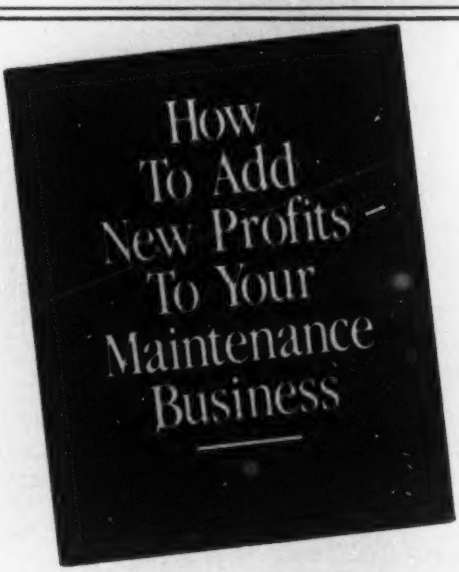

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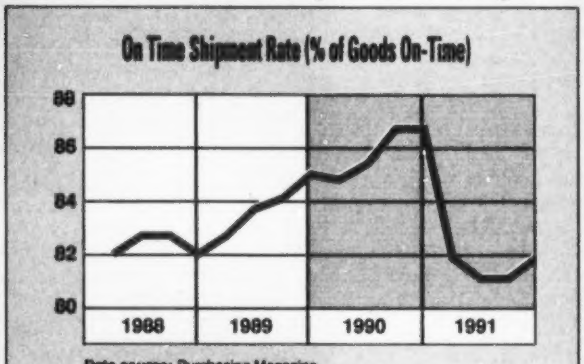
SUPPLY OUTLOOK

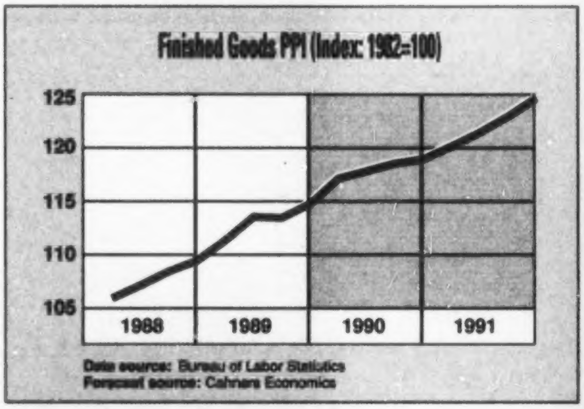
Soft demand lessens leadtimes

Leadtimes have been volatile lately, but the trend has been clear: down. For each month since April, 1989, Cahner's Leadtime Index of 125 Industrial Materials has been lower than the year-previous number. For example, the March 1990 number was 12.7% below March 1989's. This was because 75% of the materials covered in the survey had shorter leadtimes than last year. In addition, nearly 86% of the purchasing managers surveyed reported that goods were arriving when promised. Expect delivery times to slip by 6.4% this year, but to stretch 2.1% in 1991 on manufacturing's renewed strength. ☐



Data source: Purchasing Magazine
Forecast source: Cahners Economics

The percentage of goods delivered on time will increase this year due to an overall manufacturing slump.



Data source: Bureau of Labor Statistics
Forecast source: Cahners Economics

Producer prices on finished goods will increase 4.3%, a sign of stubborn, but controlled, inflation.

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Industrial Distribution®

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

JUNE 1990
A CAHNERS PUBLICATION

SPECIAL:

Outlook for pneumatic tools

EXPERIENCE DELIVERS SALES

David Silbert (left),
Nathaniel Cooper
Stu Silbert
Harbor Tool Supply, Inc.

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Industrial Distribution

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VOL. 79, NO. 6 JUNE 1990 A CAHNERS PUBLICATION

Management means developing pros for Dave Silbert (l.), Nathaniel Cooper and Stu Silbert of Harbor Tool.

Cover photography by Seth Resnick

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A contemporary work ethic and more than two centuries of collective experience help Harbor Tool staffers progress toward zero-defect performance.

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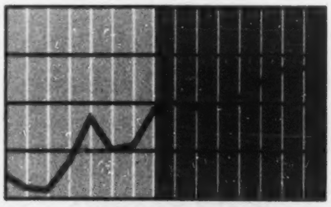

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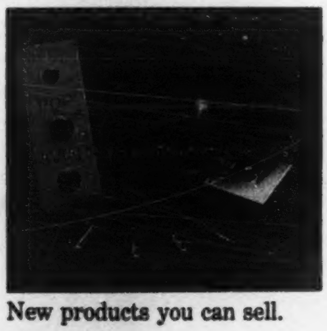

New products you can sell.

57 Sales Aids
New brochures, spec sheets and supplier catalogs.

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is in keeping with Feldmuhle's strategy of focusing on converters as a means of selling product through industrial distributors.

With this latest acquisition, CAPCO now has facilities in Ramsey, MN, Los Angeles, CA and Greensboro, NC. The firm also plans to open a plant and warehouse in Cincinnati, OH next month.

For more detailed information on CAPCO and its new marketing and sales arrangement with Feldmuhle, call Burzynski at (800) 624-4582 or (612) 427-2468. ☐

Hose sales up, profits squeezed

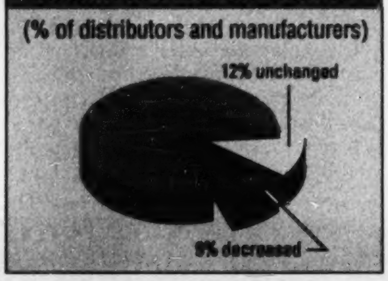
NEWTON, MA—The hose and accessories industry enjoyed a robust 1989, according to a survey conducted by **ID** prior to the spring meeting of the National Assn. of Hose and Accessories Distributors (NAHAD).

The survey of NAHAD members, found that 79% of manufacturers and distributors report rising sales of 18.5% in 1989, while only 9% experienced an average sales decline of 11% (see chart).

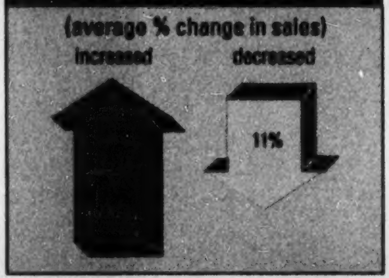
In addition, expectations for a successful 1990 selling season are high. Eighty percent believe that sales will increase an average of 15%, while only 3% forecast a sales decline of 8%, and 17% anticipate sales to remain unchanged.

Despite these optimistic projections, distributor views on profitability paint a much different picture. When asked if favorable profit margins are elusive, 88% said they

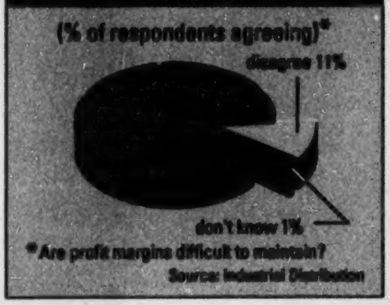
WHILE NAHAD ENJOYED RISING SALES FOR 1989...



AND WINNERS FAR OUTPACED LOSERS...



MOST FIND PROFITS ELUSIVE.



* Are profit margins difficult to maintain?

Source: Industrial Distribution

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are increasingly difficult to maintain, while 11% said they are not.

The survey also identified both strong and weak end user markets. Among the top three performing industries for 1990 are construction, chemical processors and mining. As for the laggards: construction, mining and auto production were the top picks. □

Fastener legislation nears Senate floor

WASHINGTON, DC—After months of delay, due partially to last-minute efforts by some distributors to soften the bill's language, the U.S. Senate is expected to vote on the *Fastener Quality Act* sometime this month.

The bill, which is at least two years in the making, is the Congress' response to the much publicized counterfeit fastener problem. Under the current language, the bill would require distributors to maintain traceability records on all critical use fasteners covered by the act for a period of seven years.

It also prohibits commingling (mixing lots), requires all fasteners specified by the act to be tested at a certified laboratory, and includes strict penalties for violators (*ID* : Dec. 1989, p. 13).

Patrick Windham, a staff member for Sen. Ernest F. Hollings (D-SC) and Sen. Albert Gore, Jr. (D-TN), two of the bill's Senate sponsors, said that both the Senate and House of Representatives are committed to passing a bill this year.

"The hope is that any compromise language will be worked out with the House so that we can send President Bush a bill before both branches of Congress break for the year," Windham said.

The push for a compromise is being led by Mel Seitz, president of Service Supply (Indianapolis, IN). Seitz and other leading fastener distributors met with Sen. Gore on the matter earlier this year to discuss striking the bill's commingling clause and making traceability voluntary.

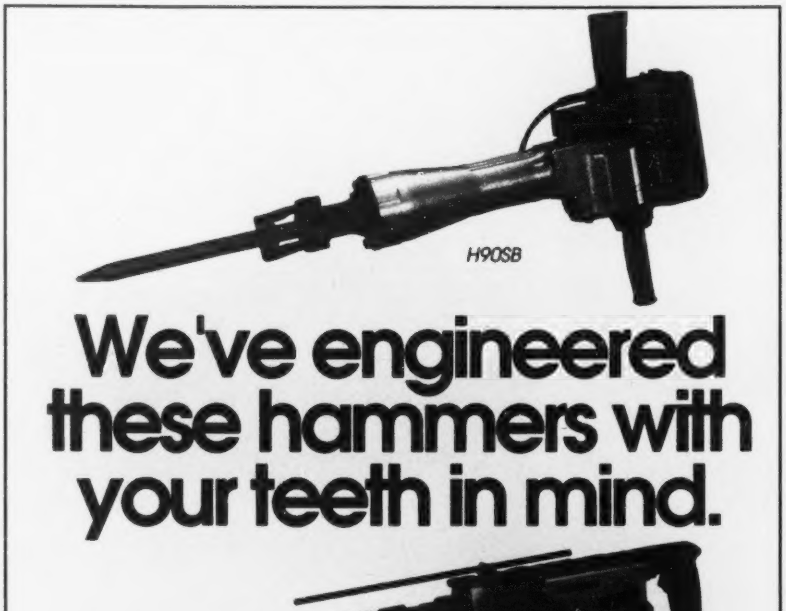
Seitz, whose business does a great deal of repackaging, said to comply with the commingling requirement he would have to shut his packing machine down after every lot. This would increase his repackaging costs up to 25%. Seitz also said that providing customers with traceability paperwork would increase the cost of the average invoice about $15.

"The fact of the matter is that if all of the fasteners are tested at a certified lab, you're dealing with product that meets specs," Seitz said. "The other problem I have with the bill is that it doesn't prevent the end user from commingling, and if he does, traceability is lost."

As of May 4, the board of the National Fastener Distributors Assn. (NFDA) was set to discuss the compromise proposals at the National Industrial Fastener Show and Conference, held last month in Columbus, OH. While she would not comment on whether NFDA would support a compromise, Mary Ann Langholz, NFDA's executive director did say that the association remains committed to a workable bill.

On the manufacturer front, Charles Wilson, director of engineering and management services at the Industrial Fasteners Institute (IFI), said that the lot control and commingling issues were non-negotiable.

"The whole basis of quality control is providing customers with lot control and not commingling parts,"said Wilson. "If you compromise on lot control, you give away the value of quality assurance." □



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► CIRCLE NO. 11

Designs That Sell

Air tool manufacturers are finding that successful distributor marketing begins in the minds of engineers and ends in the user's hand.

By John G.F. Bonnanzio, Associate Editor

Whoever said that nothing's new under the sun hasn't been watching the pneumatic power tool market. Driven by the need for healthier, safer and more productive workplaces, manufacturers are laboring at breakneck speeds to design "worker-sensitive" ergonomic products.

These new designs seek to reduce the number of "trauma injuries" resulting from long-term exposure to tool vibration, noise and repetitive motion. In doing so, the hope is to minimize hearing loss, carpal tunnel syndrome and tendinitis which, collectively, are said to cost employers as much as $100 billion in lost productivity every year.

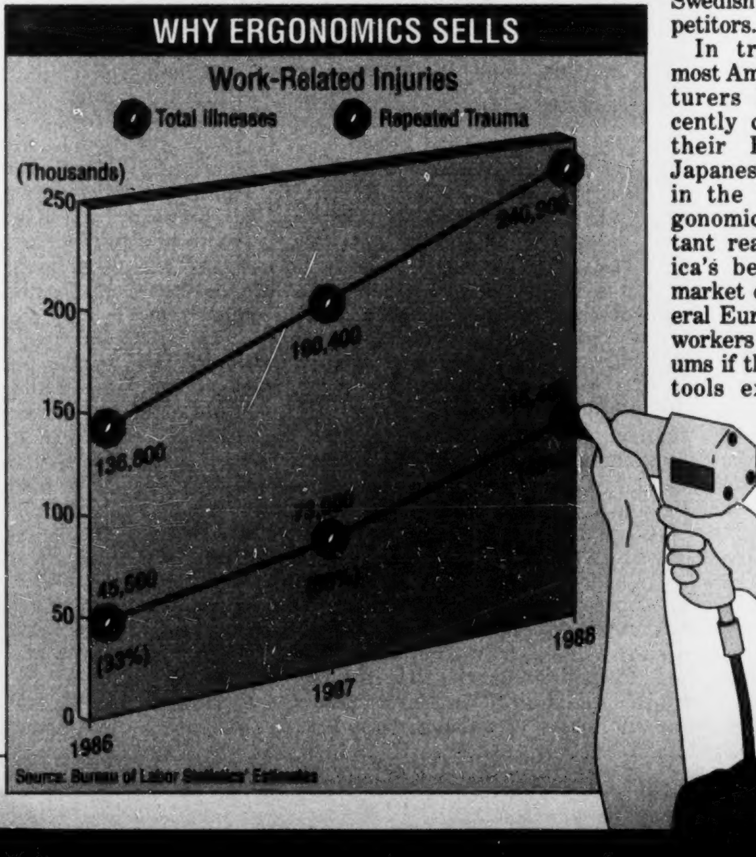
And these changes are not taking place in an engineering vacuum. Whereas some distributors complain that suppliers are inattentive to both themselves and their customer's needs, Ingersoll-Rand Co. uses distributor and end user panels to identify marketplace demand. In addition, the speed at which products are brought from drafting table to customer has also been compressed. "By streamlining our development processes," reports Ingersoll's Sales and Marketing VP Larry Silber, "leadtimes are down from three years to just one." As a result, the broad-line air tool manufacturer hopes to provide distributors with state-of-the art products long before competitors can react.

Just as important, what goes into the tool's guts and how it fits the tool operator's hand are intensely competitive considerations. Issues ignored in earlier tools are now design imperatives. Today, engineers from various disciplines not only address "ergotoolnomic" challenges (the physical relationship between tool and tool user), but also tackle problems of dust control, airborne oil, noise abatement, vibration dampening, torque reaction, tool serviceability and safety, operator comfort, and overall worker productivity (see "Solution Selling Tools").

Still, the bottom line in the pneumatics market is building air tools which excel in performing one or several tasks, while providing the tool user with a product that's easier and safer to operate. "The reason we have ergonomics," says Atlas Copco's Charlie Robinson, "is to improve the worker's productivity"—a concept that has not been lost on the Swedish company's competitors.

In truth, however, most American manufacturers have only recently caught-up with their European and Japanese counterparts in the science of ergonomics. One important reason for America's belated effort is market demand. In several European countries workers are paid premiums if their exposure to tools exceeds a prescribed noise level (about 90 dBA). As this "time exposure" is potentially ex-

WHY ERGONOMICS SELLS



Source: Bureau of Labor Statistics' Estimates pensive to industry, work quickly began to reduce vibration-induced noises.

Sometimes noise abatement was easily achieved by exhausting air through a rear pipe or hose which acts like a muffler. With tools such as impact wrenches, Atlas Copco has engineered a hydraulic impulse mechanism to dampen high frequency noise created when the rotating hammer strikes the anvil inside the tool.

Although designing a complete line of worker-friendly air tools is expensive, breakthroughs are not the exclusive domain of large manufacturers. (Atlas Copco and its affiliate, Chicago Pneumatic, are said to enjoy 40% of the world-wide market for pneumatic tools.)

In Rock Island, Illinois, a tiny upstart called Honsa Ergonomic Technologies Inc. has been busy biting the hands of larger manufacturers who supply the company with air tool barrels. To these they add vibration-dampening elastomer handles which mimic the way a woodpecker's brain is isolated and suspended from the bird's beak. Likewise, isolating a chipping hammer's barrel and piston from the handle eliminates metal-to-metal contact, and the worker is spared most harmful vibration.

The result? So far the company has two patents which Vice President Thomas Honsa says reduce the vibration in chipping hammers and aircraft riveters by as much as 85%. Says Honsa, who oversees research and development, "Users are seeing the writing on the wall. If their workers are happy using a product they feel healthier with, their productivity will also increase."

And so will the distributor's sales. According to Honsa supplier Duff Elleby, "The issue (of ergonomics) is as much about health and safety for the worker, as it's about increased productivity for the employer. That's our opportunity for making the sale."

So certain is Elleby about the value of selling worker comfort that his Minneapolis company, Ergosource Inc., sources and sells nothing but ergonomic products for industry and office. From vibration and shock-absorbing tool wraps and gloves to Bahco Tools' "Ergo line" of hand tools, this breed of non-stocking distributor earns its keep through solution-selling.

And in all likelihood, the company can look forward to a receptive market. Earlier this year OSHA fined a South Dakota meatpacker $1.25 million for exposing employees to hazards that lead to carpal tunnel syndrome, a debilitating injury caused when severe forces are repeatedly exerted on the wrist. While the meatpacking industry has been a high-profile OSHA target, the agency has also been looking closely at other industries such as the air tool market's largest segment—motor vehicle manufacturing.

According to data produced by the Bureau of Labor Statistics for this article, in 1987 nearly 2,000 worker's compensation claims were filed in 24 states by employees in motor vehicle manufacturing and assembly trades. Of these repeated trauma claims, 612 injuries were caused directly by "hand tools." (See "Top Industry Offenders"). As states are not required to report this data to the federal government, and because such heavily industrialized states as Illinois, New Jersey, New York and Pennsylvania are all non-reporting, these figures are undoubtedly low.

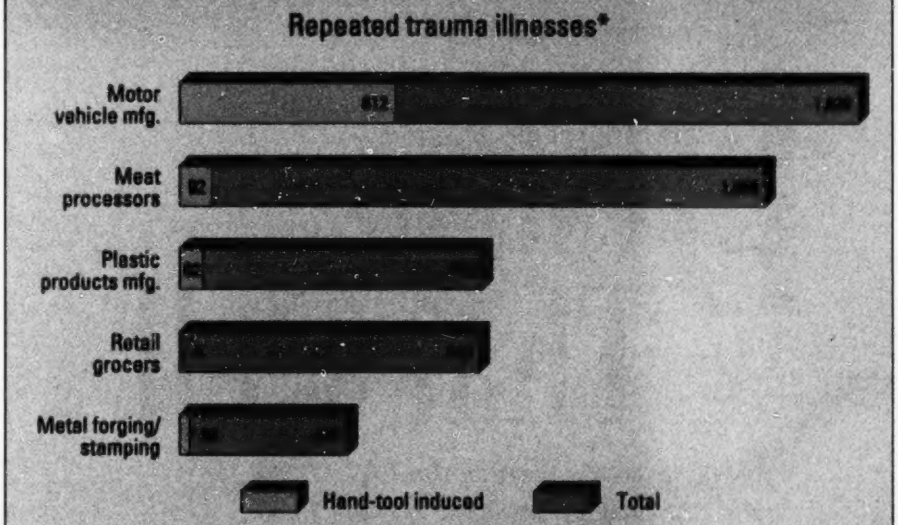
So serious is OSHA's wrath that at least one manufacturer was heavily fined for little more than shoddy recordkeeping in monitoring plant noise. The Budd Company, a manufacturer of automotive parts, must now implement an extensive "hearing conservation program" which provides for complicated enforcement plans including the testing of workers exposed to specific noise levels. Although Assistant Labor Secretary Gerard Scannell (who heads OSHA) said that "Budd is to be praised for its rapid and positive action [in] dealing with these issues," the company was nonetheless fined $1.5 million.

THE SOLUTION SELLERS

As the number of worker compensation claims for repeated trauma injuries continues to increase (see chart), so does the dollar value of fines levied by OSHA. While many businesses have failed to take pro-active steps toward reducing worker injuries, there are numerous examples of manufacturers looking to distributors to help address potential ergonomic hazards.

At Komatsu Dresser, a manufacturer of heavy construction equipment, assembly supervisor Greg Swiderski says he relies on the technical expertise of The Tool House, a

TOP INDUSTRY OFFENDERS



In terms of selling ergonomic tools, distributors can truly turn tragedy into opportunity. With the exception of the retail grocery industry, air tool suppliers will find the above mentioned industries as their best prospects.

Based on workers' compensation claims reported from 24 states and the Virgin Islands. Hand tools are defined as all electric, air and manually operated chisel hammers, buffers, grinders, nutrunners, screwdrivers, knives, saws, powder actuated nailers, welding tools and other miscellaneous items.

Source: Bureau of Labor Statistics

Milwaukee distributor, for product assistance in air tools. "Good pricing and service will always be important to us," says Swiderski, "but access to a quality tool line and application assistance are what determine where we'll do our business."

When Komatsu began a re-tooling program about two years ago, The Tool House arrived at Komatsu's Libertyville, IL facility with a line of AIMCO/Uryu pulse tools in hand. After demonstrating the suitability of the tools, the distributor went one step further by allowing the workers to use the tools on the production line. "Because of the ergonomics designed into the tools," says Swiderski, "the guys on the shop floor gave them a very good reception. Based on that and the air tool's ability to perform, we figured the payback would merit the investment."

Other distributors have taken solution-selling one step further. "When the manufacturing engineer has a problem," says Tim Bradigan of Georgia's Air Specialists Inc., "it's our business to solve his problem." In other cases, he says, it's the salesman's job to alert end-users to problems they didn't know existed.

For example, despite improvements to factory ventilation, large users of air tools can still have difficulty with atmospheric oils given off by pneumatic tools. The solution? Sometimes Air Specialists recommends new air treatment equipment such as a single point lubricator. This device meters the exact amount of oil delivered to any pneumatic device needing lubrication, thereby reducing airborne oil and providing a healthier environment.

In addition, says Bradigan, improved lubrication extends tool life as much as 70% and provides better torque control. And if health issues fail to impress a customer, helping end users improve quality and pro-

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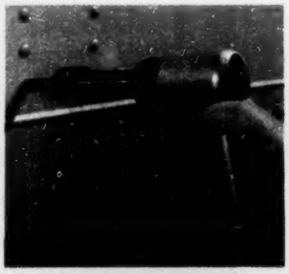
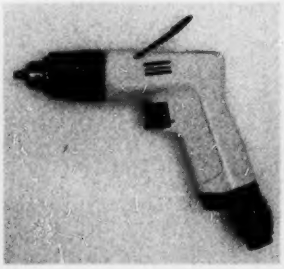
SOLUTION SELLING TOOLS



Problem: Excessive vibration
Solution: Honsa Ergonomic Technologies Vibradamp tools. Proprietary elastomer used within chipping hammers and riveters to isolate the operator from vibration. With less energy released through vibration, more power is delivered to work surface while tool user avoids harmful injury.
Circle No. 349



Problem: Airborne oil
Solution: Atlas Copco's lubrication-free tools. Motor vanes are made of reinforced nylon with integrated lubricant material. In removing airborne oil fog, operator's safety is increased, while savings are achieved by eliminating lubrication units, maintenance, compressed air oil and soiled work pieces.
Circle No. 350

Problem: Airborne dust
Solution: The Aro Corporation's random orbital sanders with vacuum pick-up. OSHA has determined that the potential for pulmonary impairment and nasal cancer is associated with prolonged exposures to certain wood dusts. Vacuum pick-up unit reduces airborne dust level; self-contained dust collector due on market.
Circle No. 351

Problem: Operator safety
Solution: Suhner Industrial Products straight and angle die grinders. C-models feature safety ring/lever throttle which prevents accidental switch-on while allowing fine adjustments to abrasive. Insulated housing prevents cold fingers; low noise level with muffled exhaust exceeds OSHA standards.
Circle No. 352

Problem: Torque reaction/ vibration
Solution: AIMCO/Uryu's Intelec torque controlled pulse tool. Uses oil filled cylinder that "pulses" under load providing smoother drive of fastener with reduced vibration. Said to lower incidence of many cumulative trauma disorders. Optional electronic unit (UEC-4000) detects inaccurately driven or defective fasteners.
Circle No. 353

Problem: Productivity
Solution: POP Fasteners Division's RP-4 rivet presenter. Attaches to standard factory air and electrical supply delivering up to 30 rivets per minute semi-automatically. By eliminating manual loading, laborer has free hand for holding work, spends less time handling rivets. Said to yield 10 to 40% increase in worker productivity.
Circle No. 354

Problem: Worker fatigue
Solution: Sioux Tools Ergo-series (2S) of pneumatic drills, screwdrivers and nutrunners. Design shifts tool motor weight below operator's wrist. Traditional straight, pistol or 90° design is avoided; output spindle is at 125° to enhance balance and leverage thereby reducing fatigue and increasing worker productivity.
Circle No. 355

Problem: Tool maintenance
Solution: Ingersoll-Rand's Cyclone series of fractional horsepower grinders. Features a one-piece steel cylinder—reducing the number of parts that can wear or break—increasing durability and reducing vibration. Drop-in motor affords one minute access to vein replacement. Total estimated repair time: five minutes.
Circle No. 356

ductivity will often be the trick to making the sale—a point not lost on Karl Wachtler of Suhner Industrial Products. "Our approach as a portable power tool manufacturer is to be problem solvers," says the company's sales and marketing manager. "Our salesmen are trained to find problems and, in turn, they help our distributors to find them too."

But identifying problems is not the first step in solution-selling for distributors. The process begins with engineers identifying problems and designing tools to address them. At Suhner, noise abatement, ambient oil and vibration dampening have long been concerns, so the firm insulates housings to guard against numbing and loss of hand muscle control; rear exhausts air to keep oil from settling on the workpiece; and muffles exhaust to a maximum of 80 dBA to exceed OSHA standards.

Similar design considerations appear in The Aro Corporation's random orbital sanders. When compared to the product Aro introduced in 1975, today's sanders are said to be 10% lighter, feature a contoured control lever, provide a new valve design for easier throttling and speed control, and use a new directional muffler. Partly in response to OSHA's fervor in controlling soft and hardwood dust, Aro will introduce a self-contained dust collector during June's Woodworking Show in Atlanta. Says Doug Goehler, Aro's sales promotion manager, "These designs are all a part of our 'Quality thru Excellence' program. Better products for a more demanding work environment."

Some of those demands meet productivity requirements. Here too, manufacturers are listening. Pop Fasteners Div. developed a semiautomatic rivet presenter for bench-based assembly work that is said to increase productivity by as much as 40%. Although the worker is tethered to the machine, product marketing manager Peter Femiak says the tool system's "real advantage" is providing its operator with a free hand when aligning parts. At the same time, because mill dirt can't get on the rivets from the operator's hand, worker comfort is increased because there's no need to wear uncomfortable gloves.

While difficult to measure, operator comfort is nonetheless an important aspect to productivity. Swedish motor vehicle conglomerate AB Volvo is known to install elaborate material handling equipment along assembly lines because its engineers believe that it makes more sense to flip a car frame upside down, than to have a worker continuously move in unnatural positions. Similarly, says Jim Cornish of Sioux Tools, Inc., "It makes more sense to bend the tool than the user's wrist." Which is one reason why, says Cornish, that the company's new Ergo-series of pneumatic drills, screwdrivers and nutrunners has been so widely accepted: reduced operator fatigue.

Because there are too few new manufacturing facilities in the U.S., distributors must mate new tools to existing operations. Outside sales people may find it difficult to eliminate assembly problems, but it is their job to suggest how new designs save money. With improved quality and productivity demands pressing short-term profits, and rising healthcare costs poised to injure long-term margins, ergotoolnomics seems just the tonic for distributors of powered air tools products. ☐

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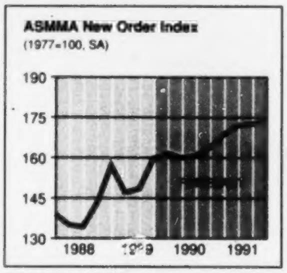
► **CIRCLE NO. 36**

BUSINESS REPORT

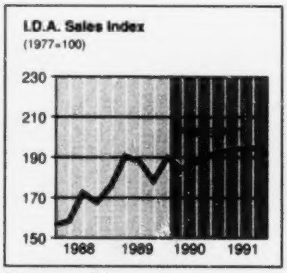
BY KRIS BLEDOWSKI

OEM output will slow

Primary durables off only marginally.


ASMMA New Order Index
(1977=100, SA)

Data source: ASMMA
Forecast source: Cahners Economics


I.D.A. Sales Index
(1977=100)

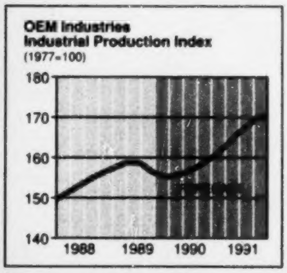
Data source: I.D.A.
Forecast source: Cahners Economics

For the past 12 months industrial output has been slow, registering an annual growth rate of 2.3% in February. With all five durable goods industries (fabricated metals, non-electrical machinery, electrical machinery, transportation, and instruments/controls), reaching a cyclical trough this year, 1990 output will finish 0.3% lower than in 1989. However, strong gains in the electrical sector will push OEM production up 6.4% in 1991.

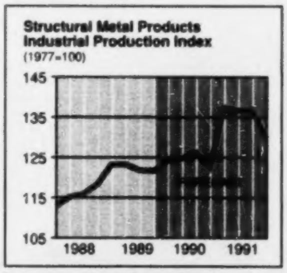
The durable goods sector has also slowed but will not come close to a recession. In spite of a slowing pace of capital spending in 1989 (caused mainly by dwindling profits), order backlogs and foreign demand have kept heavy industry and electronics busy. Unfilled orders in manufacturing have been growing for 14 months and reached $512.8 billion in February. More significantly, the rate of growth has not diminished, staying at 10%. As the economy gains momentum in the second half of this year, capital spending will again drive manufacturing expansion.

Non-electrical machinery continues to be the strongest durable goods sector. Output soared 8.5% last year on top of 11.9% growth the year before. As machine tools slow later this year, production of non-electrical machinery should gain only 1.4% in 1990 before taking off to a 8.0% rate in 1991. The instruments and controls industry has also slowed marginally. It will decelerate further finishing 1990 with a drop of 0.2%. In spite of booming aircraft orders, the transportation category lost momentum late last year and has not yet recovered. Industrial production was down 1.5% in 1990, due to cutbacks in auto production. Foreign-owned auto plants have not made up for lost output at the Big Three, and the total for all auto manufacturing production will be down 3.1% in 1990.

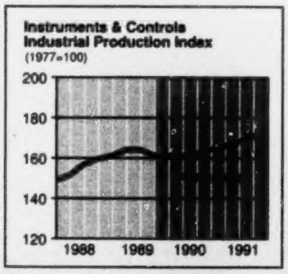
Additional growth is expected in fabricated metals production. Structural metal products as well as hardware and tools have been booming for several months. With cutbacks in new investments, MRO expenditures soared, triggering the demand for these products. Expect output of fabricated metals to advance 2.1% this year and 6.8% in 1991. ☐


OEM Industries
Industrial Production Index
(1977=100)

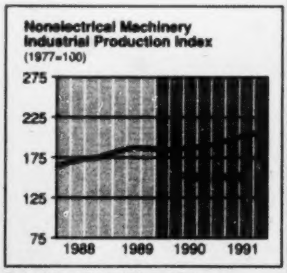
Data source: Federal Reserve Board
Forecast source: Cahners Economics


Structural Metal Products
Industrial Production Index
(1977=100)

Data source: Federal Reserve Board
Forecast source: Cahners Economics


Instruments & Controls
Industrial Production Index
(1977=100)

Data source: Federal Reserve Board
Forecast source: Cahners Economics


Nonelectrical Machinery
Industrial Production Index
(1977=100)

Data source: Federal Reserve Board
Forecast source: Cahners Economics

	SALES			RECEIVABLES	INVENTORY
(1977=100)	March 1990	Feb. 1990	March '90 vs March '89 % change	March 1990 days	March 1990 % change
TOTAL	186.4	192.7	6.2	39.9	+0.5
EAST	155.7	160.8	−3.5	48.9	−0.1
SOUTH	200.8	208.0	−3.1	36.1	−1.3
CENTRAL	160.1	166.6	+12.9	39.8	+0.8
WEST	199.2	200.4	−0.8	39.7	+3.2

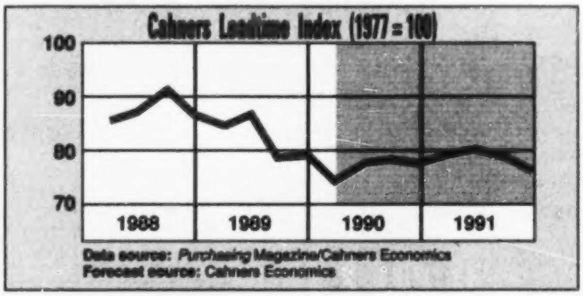
SOURCE: Industrial Distribution Assn.

SUPPLY OUTLOOK

BY PAUL WATERS

Factory leadtimes to shorten

Manufacturers are streamlining inventories.

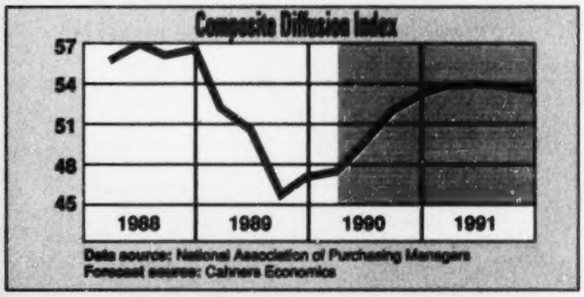


Data source: *Purchasing Magazine*/Cahners Economics
Forecast source: Cahners Economics

Thanks to the current economic growth slump, industrial materials will be easier to source than usual. For each month since May 1989, Cahners leadtime index of 125 industrial materials has been shorter than its year-ago counterpart. This year's first quarter was 12.2% below 1989's and the second quarter is estimated to have logged a similar decline. Industrial distributors and, in turn, purchasing will be pleased with the supply conditions for the rest of 1990. The leadtime index will finish the year 6.4% below 1989's level and delivery times will not increase significantly until the first quarter 1991. Volatility should not be a problem either, since the index is forecasted to climb only 2.1% next year.

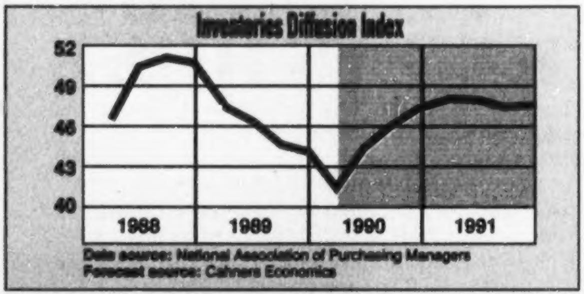
Businesses are simply not demanding goods because activity is slow. The National Association of Purchasing Managers (NAPM) inventory index tracks changes in inventory activity. A number 50 indicates no change, while a number below 50 indicates shrinking inventory levels (see diffusion indices). Since January 1989, the index number has stayed below 50. Because of the slowdown, firms are keeping streamlined inventories. But with economic activity picking up in the third quarter, firms should start to build stocks soon. Look for the inventory index to drop about 2% this year, but rise more than 6% in 1991.

Although some indicators are difficult to read right now (as is common during a turning point), most point to an imminent upturn in the economy. Both the new order and production indices have been above 50 since February and others are approaching it. Simply put, expect the overall activity index to rise above 50 in the third quarter, evidence of expansion in manufacturing. This translates into a 2.6% gain in industrial production this year and a 4.5% jump in 1991.



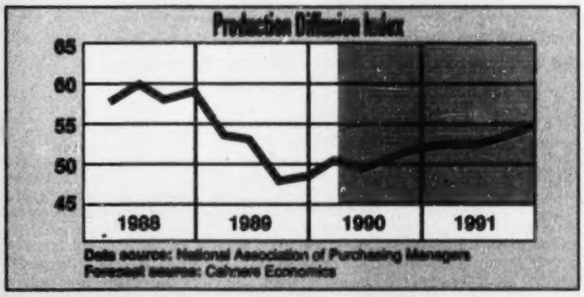
Data source: National Association of Purchasing Managers
Forecast source: Cahners Economics

The NAPM composite activity index will manage a 3.3% climb in 1990 on the strength of the second half of the year.



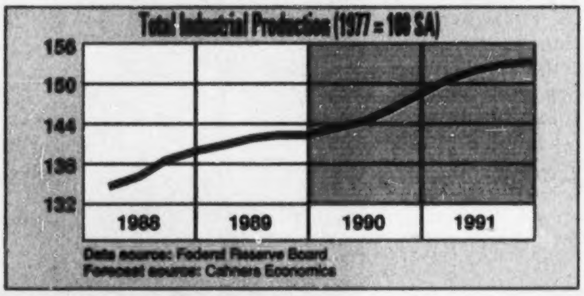
Data source: National Association of Purchasing Managers
Forecast source: Cahners Economics

Inventories have been kept trim since the beginning of 1989, but expected economic strength will encourage small buildups.



Data source: National Association of Purchasing Managers
Forecast source: Cahners Economics

The NAPM production index will rise above 50 in the third quarter, indicating an expanding manufacturing sector.



Data source: Federal Reserve Board
Forecast source: Cahners Economics

Total industrial production will climb a modest 2.6% in 1990, but will jump 4.5% in 1991.

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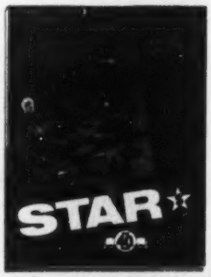

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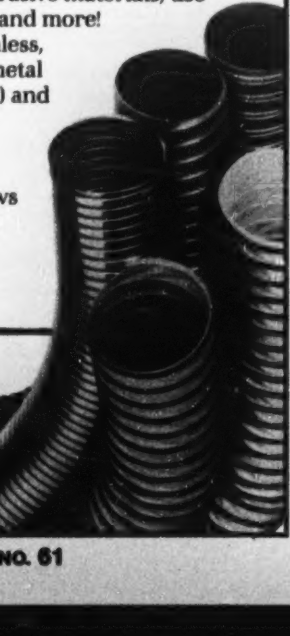
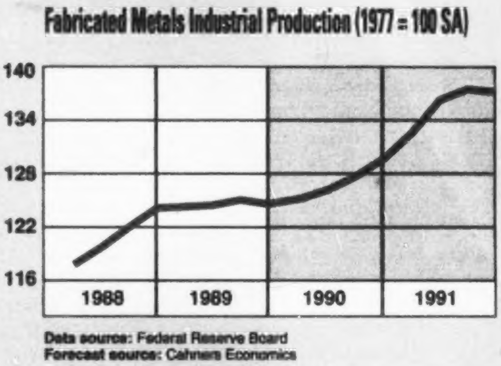


► CIRCLE NO. 61

SUPPLY OUTLOOK

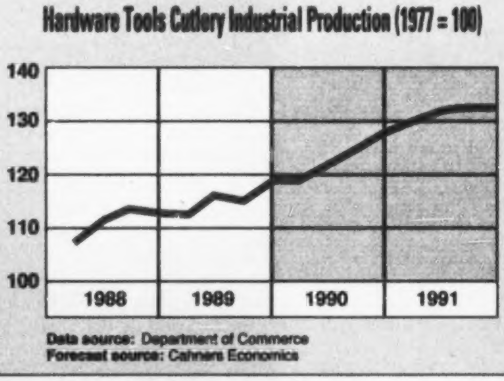
Hardware and tools will top 6.7% growth

Output of fabricated metals, which falls on the early side of the business cycle, has been weaker than most durable goods industries. After a peak gain of 9.0% in 1988, production expansion slowed to 3.1% in 1989. Look for only a 2.1% increase in 1990. Structural metal product output grew faster last year (6.0%), but 1990's gain will be a more modest 1.6%. Growth of the hardware and tools sector was 3.9% in 1989, but will top 6.7% this year. Growth in the fasteners and stampings industry is not as healthy, however. Look for production to be virtually unchanged in 1990. ☐



Data source: Federal Reserve Board
Forecast source: Cahners Economics

Fabricated metals will have to wait until 1991 before heating up. Expect a 6.8% jump in production next year.



Data source: Department of Commerce
Forecast source: Cahners Economics

Hardware and tools is one sector of fabricated metals that will see a strong 1990—look for 6.6% growth in output.

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JULY 1990
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Industrial Distribution

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

SPECIAL:

Upgrading cutting tool sales

EXCLUSIVE!

44th ANNUAL OPERATIONS SURVEY

WHAT'S YOUR SHARE?

p. 23

Salary Survey Questionnaire p. 51

Industrial Distribution

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

VOL. 79, NO. 7 JULY 1990 A CAHNERS PUBLICATION

Use our *Survey* results in comparing your firm to the industry as a whole.

Cover illustration by Sally Wern Comport

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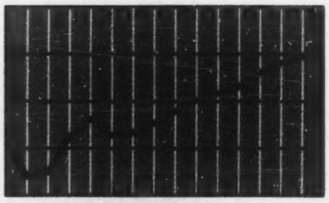

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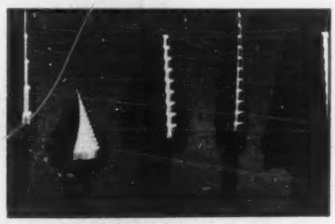

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Garrett/Carboloy reach compromise

Garrett Industrial Supply and Carboloy Inc. discontinue longstanding relationship except for integrated supply accounts.

When Kennametal Inc. bought Garrett Industrial Supply last year, the big question industry experts posed concerned what would become of Garrett's status as a leading Carboloy distributor.

Most knowledgeable industry people wondered how a Kennametal-owned Garrett Industrial Supply could maintain an effective relationship with Carboloy, one of Kennametal's toughest competitors in the carbide cutting tool market (see chart).

That question was resolved earlier this year, when Garrett and Carboloy Inc. discontinued their longstanding relationship, except for Garrett's present and future integrated supply contracts.

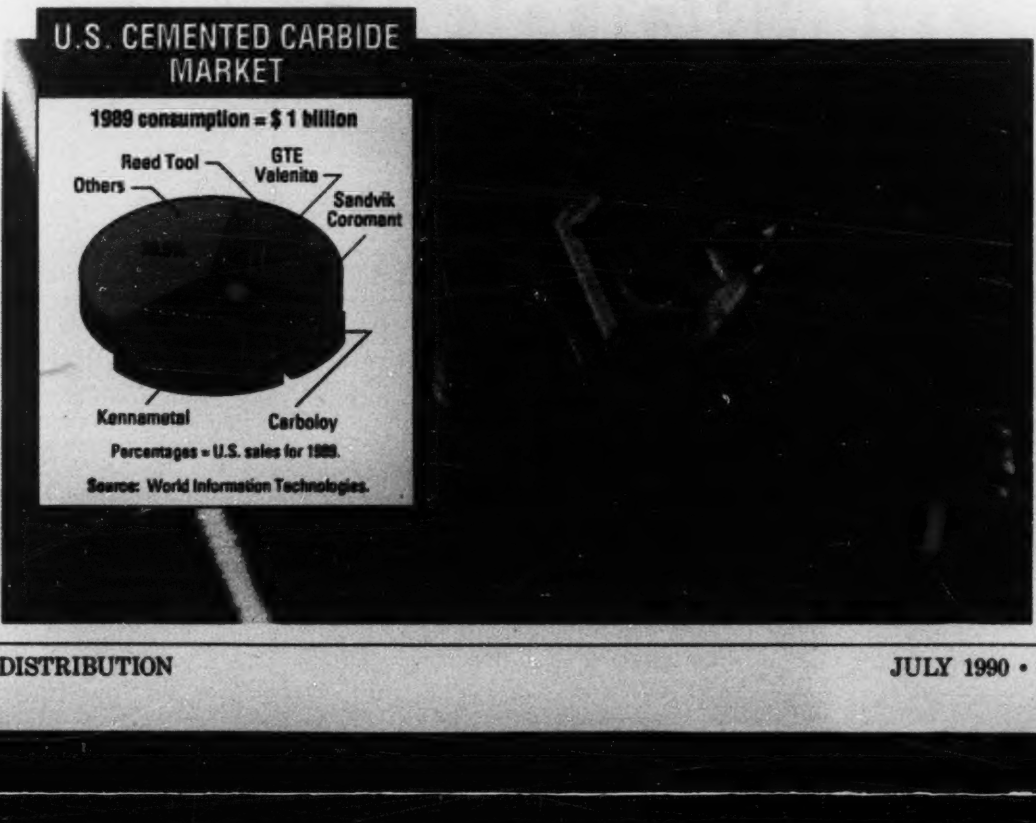
"We knew this would happen at some point," says Darryl Dillenback, vice president of operations for the Los Angeles-based distributorship. "As long as the Garrett/Carboloy question went unresolved, there was always going to be a cloud hovering over both our heads."

THE NEED TO COMPROMISE

Officials from both Garrett and Carboloy agree that the two companies made a fair compromise. The crux of the matter is that as part of its plan to become a national distributor, Garrett wanted Carboloy to support Garrett's new branches in the Cleveland, OH, Albany, NY and Boston, MA areas.

But John MacKenzie, Carboloy's manager of marketing services, says that Garrett, in effect, "asked us to authorize them for areas in which we felt we were fully covered. The plain fact is that we weren't prepared to compromise our existing distribution in those regions."

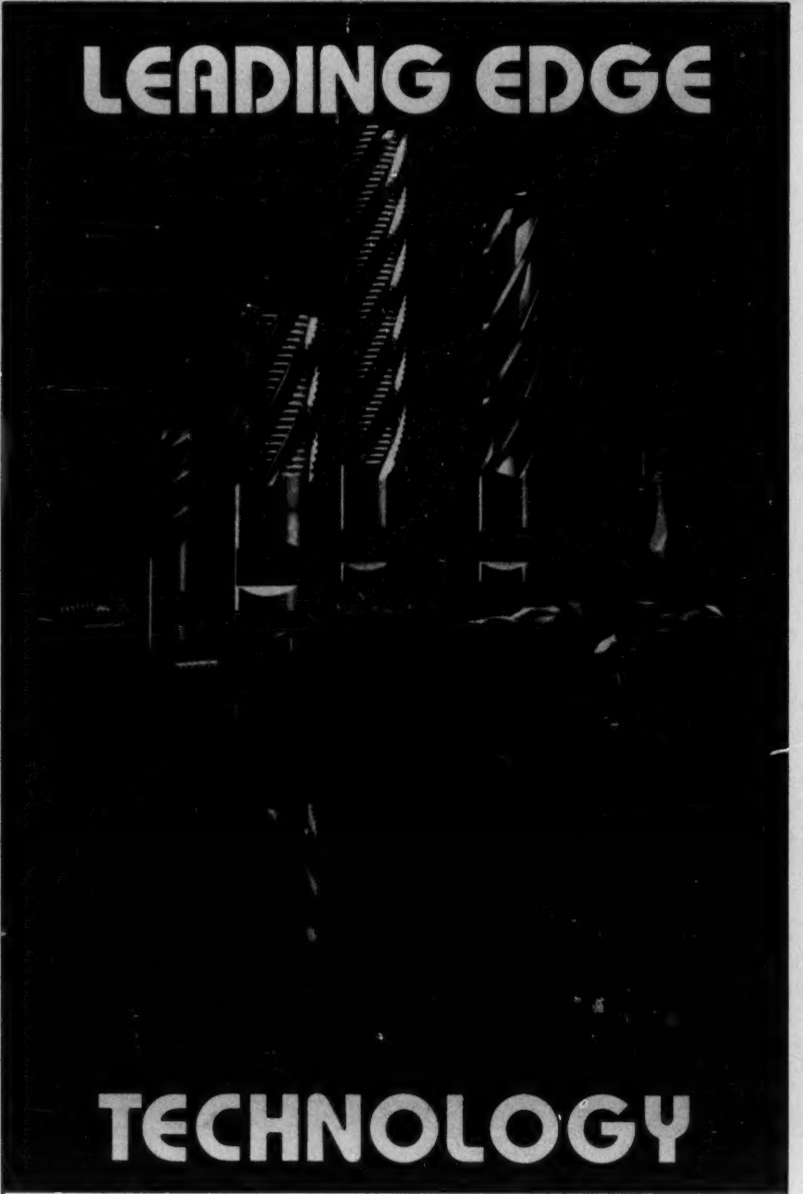
Under the terms of the verbal agreement, beginning June 30 the Carboloy line will be available to Garrett only for Garrett's integrated supply customers like General Electric, which awarded Garrett broad-based MRO contracts for several of



Percentages = U.S. sales for 1989.

Source: World Information Technologies.

Kennametal, Carboloy and three other cutting tool suppliers captured about 60% of the U.S. cemented carbide market in 1989.



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NEWS

its major U.S. divisions earlier this year.

According to Dillenback, the integrated supply contracts, for which Carboloy is one specified vendor, are for GE's Aircraft Engine Group facilities in Lynn, MA; Rutland, VT; Hooksett, NH; and Albuquerque, NM; as well as the firm's 13 Aerospace Operations Div. facilities throughout New York, New Jersey, Massachusetts, Pennsylvania, and Florida.

WHAT TO DO ABOUT THE CHAINS?

Carboloy's MacKenzie views this compromise as reflective of the tough choices industrial manufacturers will be faced with as the industry consolidates and the large distribution chains become more powerful.

"The way the marketplace is going, manufacturers have to be prepared to accommodate both the independents and the large chains," says MacKenzie. "I feel that, in the Garrett situation, we've done that pretty well."

While at this point it's unclear how successful Garrett will be at becoming a large chain, one thing is certain—Kennametal, which also purchased mail order house J&L Supply (Detroit, MI) earlier this year—has ambitious plans for Garrett Industrial Supply.

According to Dillenback, Kennametal hopes to transform Garrett from a nine-branch, regional distributorship with anticipated sales of $70 million in 1990 to a national concern with 35 branches, four regional hubs and $450 million in sales by 1996.

Kennametal's strategy for Garrett, says Dillenback, is to win an integrated supply contract, open a branch in the appropriate region and then service the surrounding local market. He says that as of January, Garrett has won $50 million worth of integrated supply contracts. Most are for three years, with two-year renewal options, he says.

Now that Garrett is no longer an authorized Carboloy distributor, the company says it will begin handling Kennametal products in all of its branch locations. The move is significant, because Kennametal traditionally approached the marketplace on a direct sales basis.

"Because of its direct sales policy, Kennametal was missing out on 50%

of the carbide marketplace," says Dillenback. "Taking on the Kennametal line is an exciting opportunity for us here at Garrett."

In early June, Garrett and Kennametal salespeople met to determine how to avoid duplication of effort in the field. According to Dillenback, some accounts will be sold through distribution, some direct and still others will be sold on a joint basis.

While Garrett and Kennametal decide on how to approach the market, Carboloy has plans of its own. Last year, Carboloy added two new distributors in the Los Angeles market, and recently signed on a new distributor in the Philadelphia area.

One of the new West Coast distributors, Slater Industrial Supply (Cerritos, CA), is excited about the prospect of vying for the Carboloy business formerly held by Garrett. "Sure, going up against Kennametal will be tough," says Slater's president Robert C. Skidmore. "But at stake is about $1.5 million in Carboloy sales that Garrett was doing in the Southern California market. That's a great opportunity for us."

—By Steve Zurier ☐

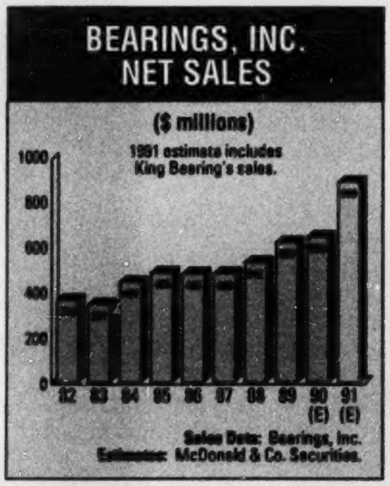
Bearings, Inc. slated to buy King Bearing

CLEVELAND, OH—Acquisition of King Bearing (Corona, CA) by Bearings, Inc. could form what may become the power transmission industry's first billion-dollar distributorship.

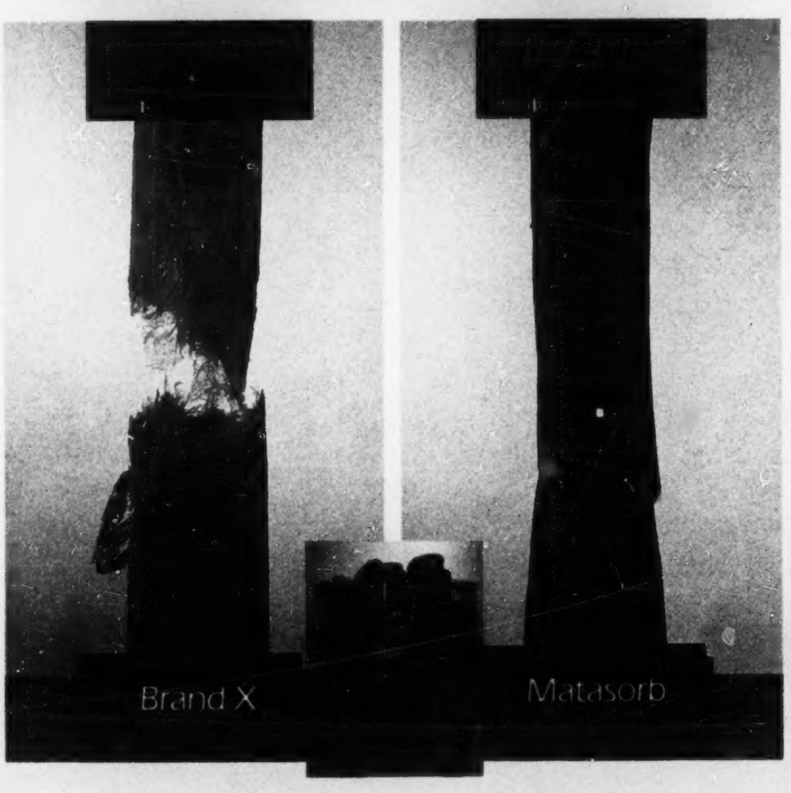
Analysts estimate that Cleveland-based Bearings, Inc. will add up to $200 million in sales by acquiring King Bearing (see chart). Bearings, Inc., already the largest bearings distributor with 269 branches in the U.S. and Puerto Rico, reported sales in excess of $630 million for the fiscal year ending June 30, 1989.

In May Bearings, Inc. announced plans to buy King Bearing from Emerson Electric Co. of St. Louis, MO. Emerson acquired King when it purchased French-based Leroy-Somer for $460 million late last year. The giant conglomerate wants to sell the distributorship to concentrate on its manufacturing operations.

Raymond E. Smiley, vice president, treasurer and chief financial officer of Bearings, Inc., said that the deal with Emerson Electric was expected to close by June 30. He said that King Bearing, which operates 94 branches in nine Western and



Acquiring King Bearing pushes Bearings, Inc. annual sales close to the $1 billion mark.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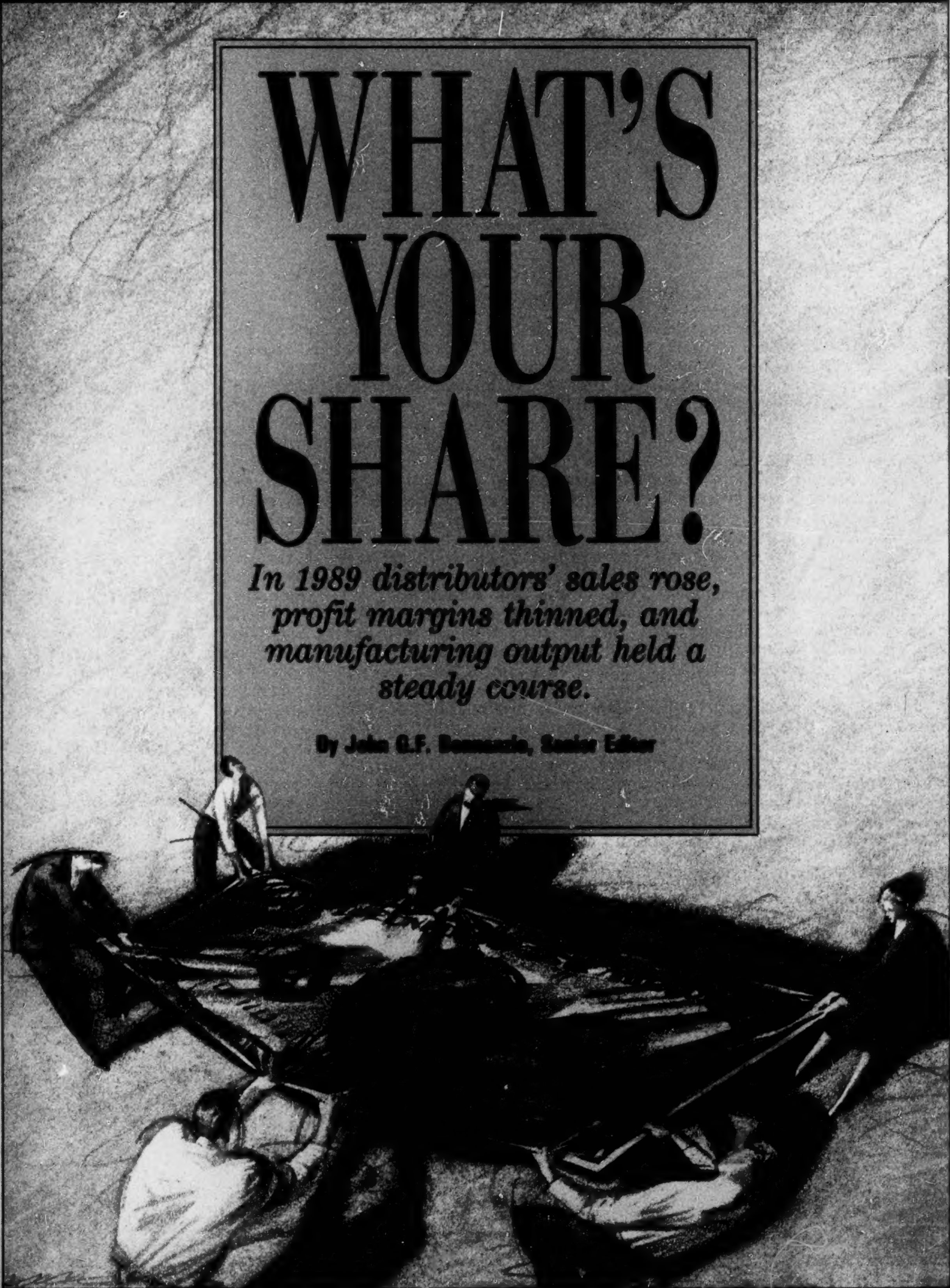
INDUSTRIAL DISTRIBUTION'S EXCLUSIVE SURVEY

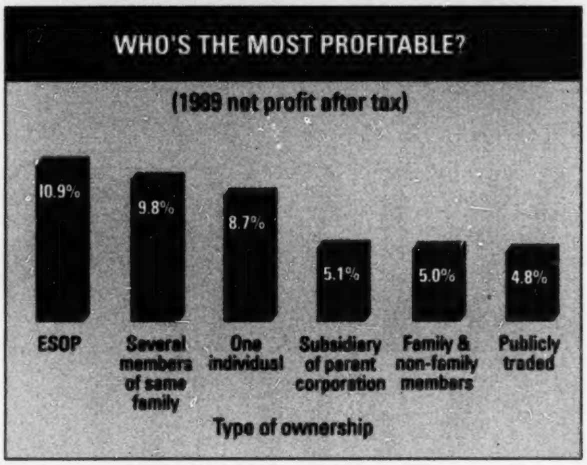
WHAT'S YOUR SHARE?

In 1989 distributors' sales rose, profit margins thinned, and manufacturing output held a steady course.

By John G.F. Bonnanzio, Senior Editor



Sally Wern Comport



For once, most economists were right. Last year the nation's economy held a steady course keeping well clear of most recessionary dangers. Unemployment stood still at 5.3%, overall capital spending rose 5%, and industrial distributors' sales reacted in kind by climbing 7.5%.

However, unexpected head winds in the form of inflation slowed real growth to a crawl; wholesale inventory stock climbed 4.2%; and distributors, like their manufacturing counterparts, tallied disappointing profits as fourth quarter losses appeared to diminish earlier gains as the year wound itself out.

When factoring 4.6% inflation into the price of finished goods, distributors' sales rose a paltry 2.9%. Contrast that to 1988 when revenues increased 9% and producer inflation was only 3.2%. What's left is real growth of 5.8%—exactly twice that of 1989's performance. While such news is no doubt a disappointment, in light of manufacturing's 3% increase in profits, the findings of ***ID's*** *44th Annual Survey of Distributor Operations* can hardly be called surprising.

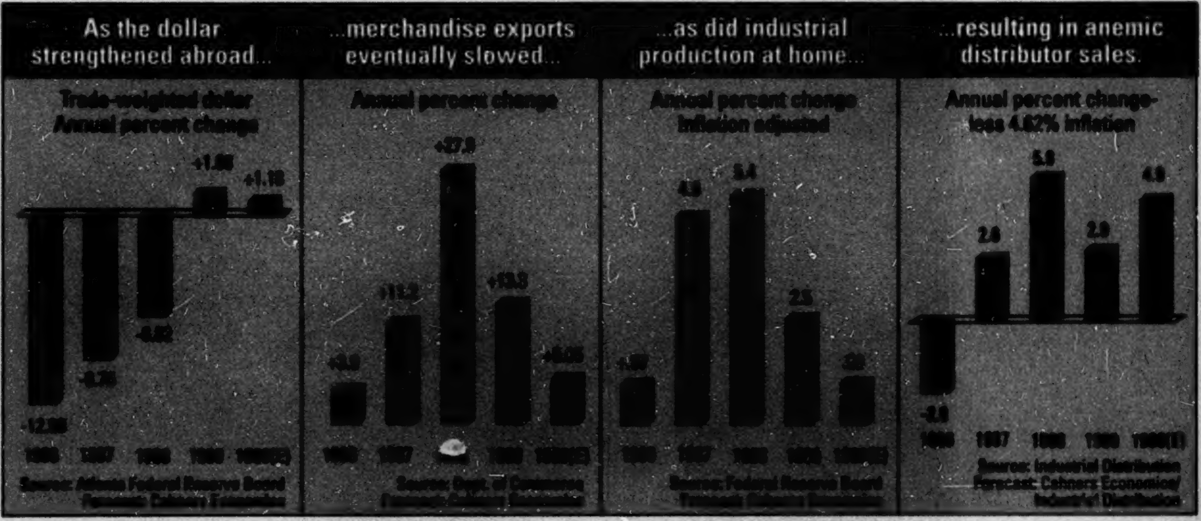
During 1989 the dollar's value overseas reversed its three year decline and gained back nearly 2% of its 1980 value (see chart below). This made American goods somewhat more expensive abroad thereby curbing offshore interest in American products and, sliced merchandise export growth in half. This, and a maturing economic expansion slowed industrial output at home from 5.4% in 1988 to 2.5% in 1989. The fallout from this was immediate, as distributors found it difficult to increase profits with the cost of inventory outpacing gains made in sales.

Industry-wide, distribution's cost of goods rose from 65.3% of sales in 1988 to 68.7% last year. At the same time, distributors' inventories increased by 8.6%, however, net profits before tax slid from 14.8% in 1988 to 12.2% in 1989. If there's any consolation in that news, MRO suppliers were not alone in feeling their margins squeezed. According to a *Business Week* survey of 900 public companies, sales increased 10% during 1989 while profits collapsed 19%. Among manufacturers of machine and hand tools the story was even more dramatic: sales were up 20% while profits headed south to the tune of 22%.

Back on the distributor side, sales and profits varied greatly by type of business (generalist versus specialist); from region to region; and, when measured against sales size (see map). By far the strongest section of the country was the West (+23%), which has led the rest of the nation in growth for two years running. Although California's economy has begun to slow (everything from housing starts to computer manufacturing have fallen-off), aerospace companies with big stakes in commercial rather than military projects are helping to keep the economy airborne. Despite a 45-day strike at Boeing, sales took off by 20% while its order backlog is worth a record $90 billion. In the Pacific Northwest, paper, pulp and forest products remain at such high capacity utilization levels (90+%), that double-digit sales increases were logged most notably by International Paper (+16%) and Louisiana-Pacific (+13%).

In America's industrial heartland, here called the North Central region, sales climbed 5.5%. But with car, truck, tire and vehicle parts production all sinking, the question is, "what kept the region afloat during 1989?" Surprisingly, the answer seems to be capital spending. Last year manufacturing invested 10% more in new plant and equipment than in 1988 and, according to a Dept. of Commerce anticipations survey, spending will increase another 4% in 1990.

What makes all of this so unusual are the contradictions found in the economy. Typically, when profits


As the dollar strengthened abroad...

...merchandise exports eventually slowed...

...as did industrial production at home...

...resulting in anemic distributor sales.

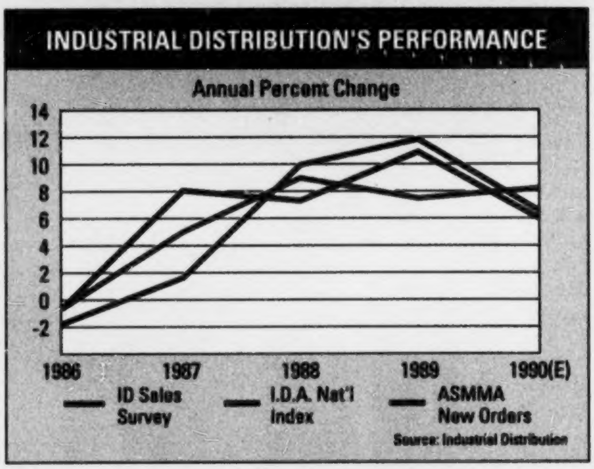
Source: Atlanta Federal Reserve Board
Forecast: Cahners Economics

Source: Dept. of Commerce
Forecast: Cahners Economics

Source: Federal Reserve Board
Forecast: Cahners Economics

Source: Industrial Distribution
Forecast: Cahners Economics/
Industrial Distribution

INDUSTRIAL DISTRIBUTION'S PERFORMANCE



Source: Industrial Distribution

collapse so severely, inventory stocks plummet, large-scale layoffs are initiated and capital spending declines. During 1989 none of this occurred. Instead, inventory stocks climbed 4.2%, manufacturing employment declined a relatively minor 2%, manufacturing's capacity utilization increased slightly to 84%, and capital spending seemed to keep industrial distributors busy with a steady stream of business. In fact, the American Supply and Machinery Manufacturers' Assn.'s New Order Index rose 11% in 1989, a performance which closely matched the 11.9% sales increase posted by members of the Industrial Distribution Assn.

On the heavy equipment side, John Deer's sales climbed 16%, and Caterpillar kept up its effort in keeping Japan's Komatsu Ltd. at bay by increasing sales 7%. One of the few laggards in the North Central region was raw steel production which declined 4%. This narrowed already razor-thin margins, and profits collapsed 25%.

In the Northeast, the economy is being carefully watched as a harbinger of nation-wide recession, although its 6.7% sales growth suggests that 1989 wasn't so terrible after all. Or was it? Distributors with strong ties to the construction industry (those who sell specialty tools and fasteners), probably suffered the most. The Dept. of Labor indicates that every Northeast state (except Vermont) lost construction jobs between December 1988 and December 1989. No matter what the causes may have been—poor weather, overbuilding, rising mortgage rates or declining employment—the net effect was a 20% decline in housing starts which idled some 50,000 construction workers.

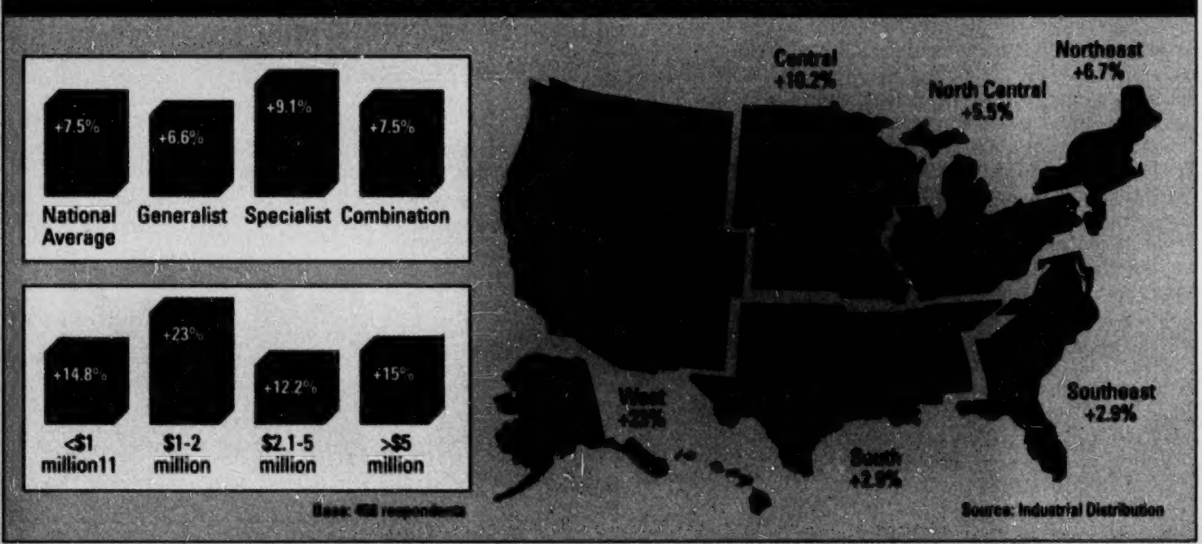
On the industrial side the picture was none better. Massachusetts lost 5% (or 28,000 jobs) of its manufacturing base, and Connecticut, despite having strong presences in aerospace and defense, laid-off 15,000 workers as well. If the 4.6% inflation is factored out of the expansion in Northeast distributor sales, all that's left is 2% real growth.

In the Central region, which contains fewer than 10% of the nation's manufacturing plants, rising grain exports buoyed distributor sales by 10.2%. But even the region's traditional manufacturing base fared well. In Minnesota, sales at Pentair, Inc. (whose out-of-state divisions produce Porter-Cable power tools and Delta woodworking machinery) climbed 41%, and 3M increased profits 8% on rising sales of 6%. Even the consumer market pitched-in to help. Iowa-based appliance manufacturer Maytag enjoyed a 64% upturn in business, while Whirlpool rang up increased sales of 42%.

With 2.9% sales increases, this year's regional underachievers were the South and Southeast. Supply business in the Southeast was affected by a slowdown in paper and paper products production, where capacity utilization rates dipped from a high of 95% in 1988 to 92.6%. Helping to offset this downturn, textile mill production remained strong, falling just short of 92% capacity utilization.

Looking to the South, distributors with their ears to the ground are hearing murmurs of activity in the oil patch. Horizontal and offshore drilling start-ups generate optimism but rising oil prices drive increased rig counts. Gulf Coast refineries are working at 87% capacity while chemical producers have increased capital expenditures 18%. Even if other industries have stalled, chemical processors are likely to keep distributors of pipes, valves and fittings busy well into the 1990s.

MEDIAN SALES BY BUSINESS TYPE/REGION/SIZE

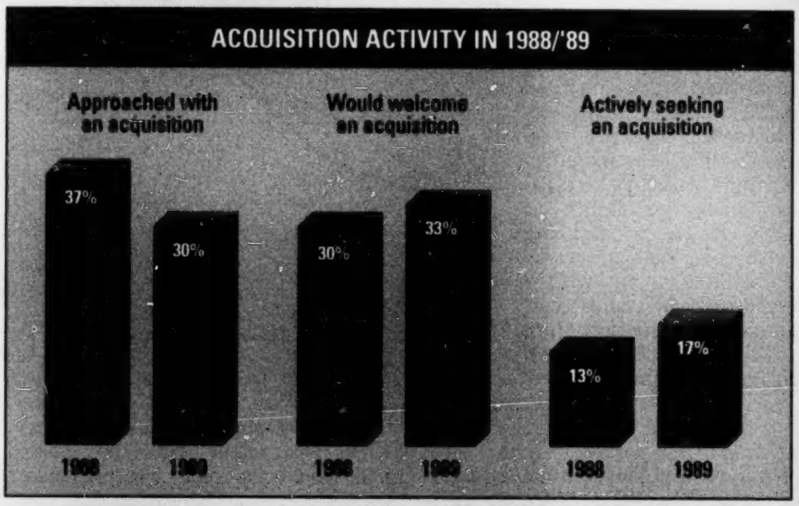


Source: Industrial Distribution

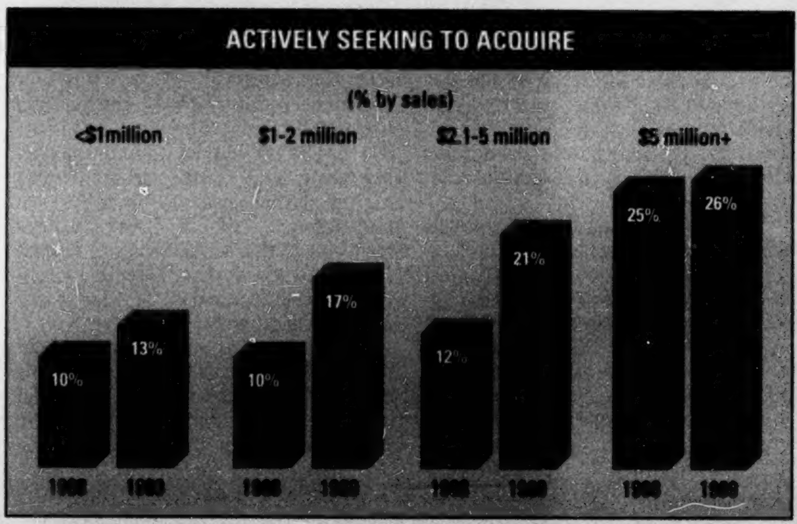
This year's *Survey* once again measures the industry's interest in mergers and acquisitions and, as usual, the data is again revealing. Although the number of companies approached with an acquisition offer has fallen from 37% in 1988 to 30% in 1989, a slighter higher percent say they would both welcome and are actively looking to acquire another distributorship.

Twenty-nine percent of general line houses said they would welcome an acquisition offer, 36% of specialists, and 37% of combination houses. But within these three categories, no one group was any more inclined to acquire, nor was any one distributor type more likely to be approached by an acquirer. When measured by sales size, however, the differences were dramatic. For obvious reasons, distributors with sales in excess of $5 million are twice as likely to acquire than those with sales below $1 million. And perhaps for fear of being squeezed out of the market, mid-sized distributors (those with sales between $2.1 million to $5 million), have become more active in the merger and acquisition game.

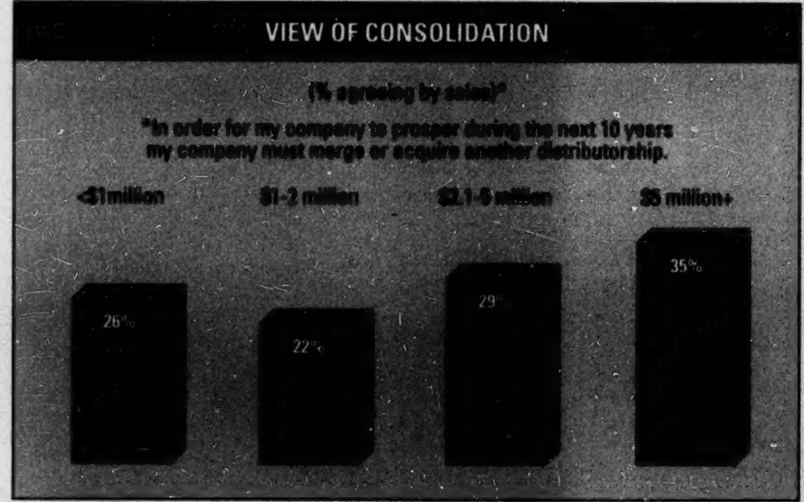
The distributor's long-term view of the industrial supply business is also shaped more by sales size than by type of business. Case in point: while 28% of all distributors agree with the statement that prosperity during the next 10 years will require merging or acquiring another distributorship, there was no difference in opinion when measured by type of firm. When viewed by sales, the differences were pronounced. Twenty-six percent of businesses with sales below $1 million agreed with that statement while 35% in the $5+ million range agreed. Conclusion? Whether there's truth in the saying that distribution will become an industry of very large and very small businesses is true or not, large industrial suppliers are taking this message to heart and the small distributor, perhaps incapable of reacting, are idly watching the drama play itself out.



ACQUISITION ACTIVITY IN 1988/'89



ACTIVELY SEEKING TO ACQUIRE



VIEW OF CONSOLIDATION

Source: Industrial Distrubition

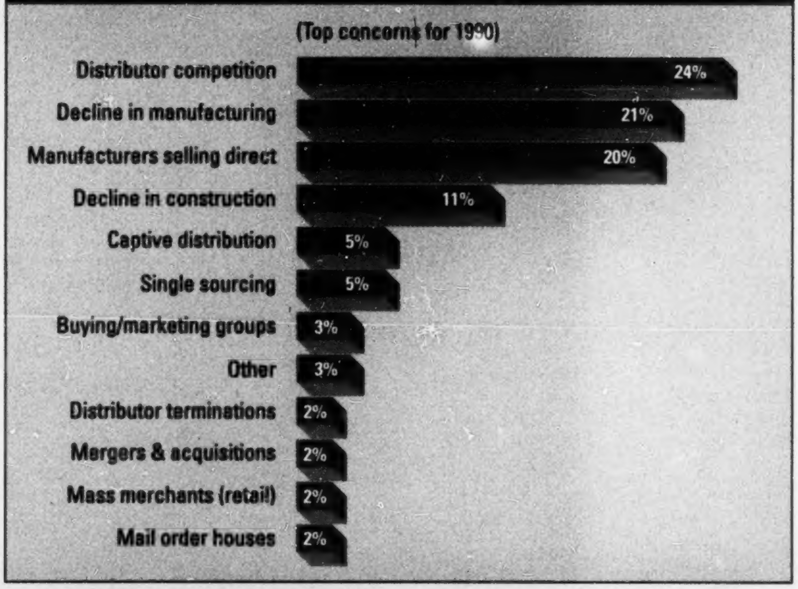
The old stereotype that industrial distributorships are today owned by individuals whose fathers first started the business shortly after the Second World War is a myth that won't fade easily. While there is some truth to this image, data from this year's *Survey* reveals that businesses with this kind of history are more the exception than the rule.

The average age of all industrial distributorships is 24 years; only 14% were started prior to 1945. In fact, nearly one-third of all firms are 10 years of age or less; more than half are 20 years old or less. There is also a relationship between sales and age. As a rule, the older the business the larger its sales. Distributorships with less than $1 million in sales average 18 years; $1- 2 million 20 years; $2.1-5 million 14 years; and $5 + million 33 years.

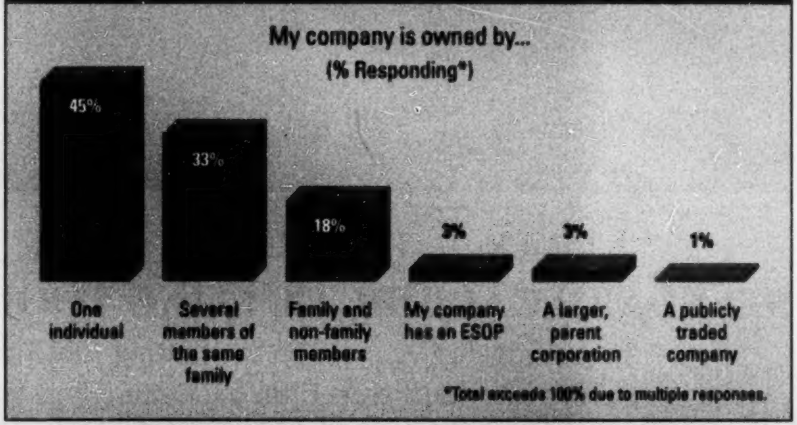
With respect to ownership, there are fewer surprises—distribution is still a family-run industry. Forty-five percent of respondents said that their companies are owned by only one individual; 33% by several members of the same family; and 18% by family and non-family members. Because of this concentration of ownership in the hands of relatively few, it's little wonder that only 3% of distributors have employee stock ownership plans (ESOPs). The relationship between type of ownership and profitability is discussed in "Sales & Profits."

And what worries America's family-owned distributorships the most? More than anything else, industrial supply houses are most concerned with the competition coming from other distributorships (24%). This is evident by price-slashing which inevitably leads to pressure on margins. Concern number two is the overall decline in manufacturing activity (21%), while 20% worry about manufacturers selling direct. Other trends which have been widely reported and discussed seem relatively inconsequential. From captive distribution to distributor terminations and mail order houses, suppliers are properly focused on those issues in which they have the least control.

DISTRIBUTION'S GREATEST CONCERNS

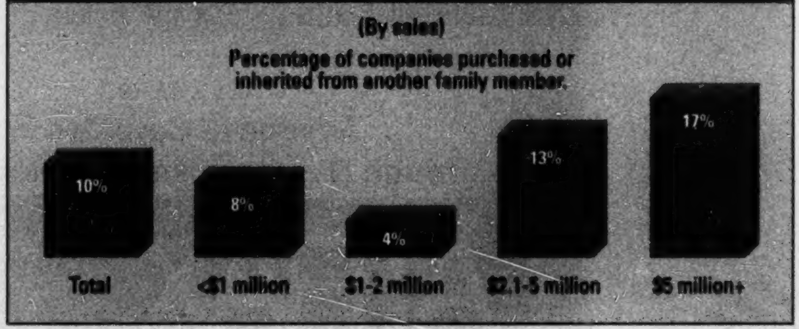


WHO OWNS AMERICA'S DISTRIBUTORSHIPS?



*Total exceeds 100% due to multiple responses.

FAMILY OWNERSHIP



Source: Industrial Distrubition

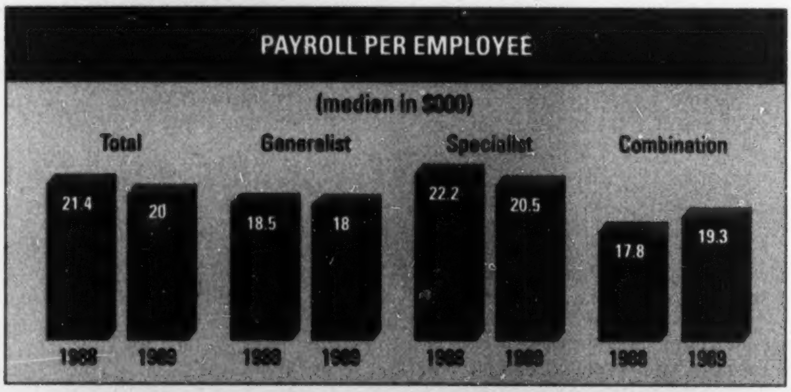
PERSONNEL

Like other areas of distributors' operations, the personnel picture is a decidedly good news/bad news scenario. First the good. Overall, payroll costs per employee appear to have dipped from a median of $21,400 in 1988 to $20,000 in 1989. (When measuring averages, however, costs climbed 5.2%—see "Operations.") This 7% drop would seem significant to the industry's bottom line but, unfortunately, is not easily understood when compared with ***ID***'s 1989 Salary Survey data. In that report, compensation rose 10% leading to the obvious question: why such a discrepancy?

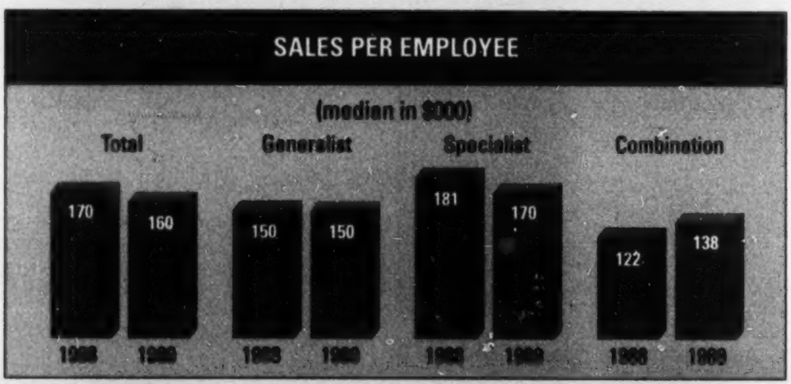
One reason is the different respondent base. While the Salary Survey (Nov. '89) focused primarily on management's wages where salary increases are twice as high for "executives" than for inside or counter salespeople, this year's operations *Survey* measures payroll for all job descriptions including part-time help. The resulting data indicates that while top distribution pay scales have outpaced inflation, warehouse and clerical staff have not fared as well.

While distributors struggled to hold onto their existing full-time employees (there are no discernible employment changes between 1988 and 1989), the bad news is that sluggish sales pulled-down the sales-per-employee ratio by 6.25%. Whereas 1988's ratio stood at $170,000, last year it crept down to $160,000 with the same trend evident among generalists and specialists. On the other hand, combination houses hoisted their ratio 13% to $138,000 while their net profit (before tax) far outpaced that of the general line and specialty distributor.

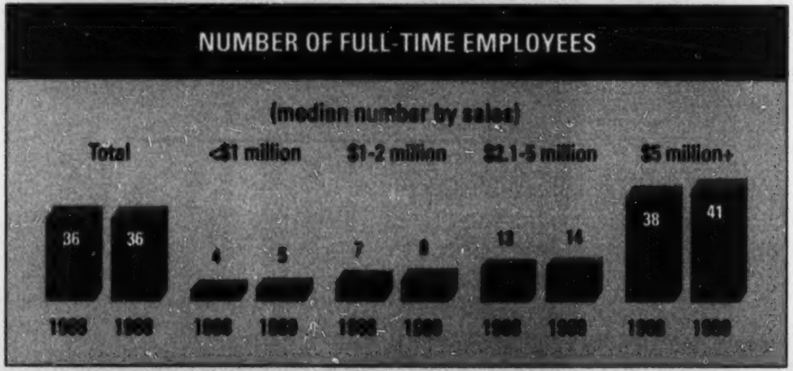
As for hiring plans in 1990, half of all distributors speculate that they will keep payrolls steady; 42% think it likely to hire more full-timers; and only 7% expect their number of employees to decline. As for part-time help, 61% of distributors use them and of those, 32% are likely to hire more sometime this year. Similarly, 29% will keep part-time employment steady, and only 3% will reduce their payroll.


PAYROLL PER EMPLOYEE

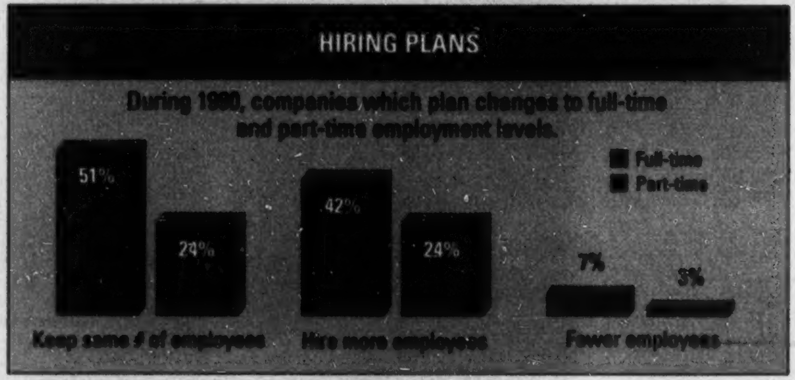
(median in $000)


SALES PER EMPLOYEE

(median in $000)


NUMBER OF FULL-TIME EMPLOYEES

(median number by sales)


HIRING PLANS

During 1990, companies which plan changes to full-time and part-time employment levels.

Source: Industrial Distrubition

OPERATIONS

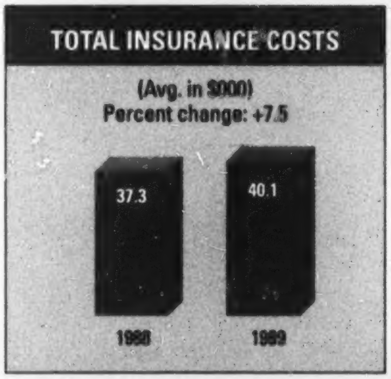
The costs incurred in running an industrial distributorship went up last year, and insurance is one of the reasons why. In 1988 total insurance expenditures averaged $37,300 and reached $40,100 last year. This 7.5% increase was not too bad in light of what happened to product liability insurance.

Eighty-three percent of distributors said that their product liability costs increased an average of 12%. For the 16% reporting a decline, costs dropped 9%. Using data from last year's *Survey*, that would put the median value of liability insurance at approximately $5,600. But a word of caution. First, that figure rises dramatically by sales size as well as by distributor type and region.

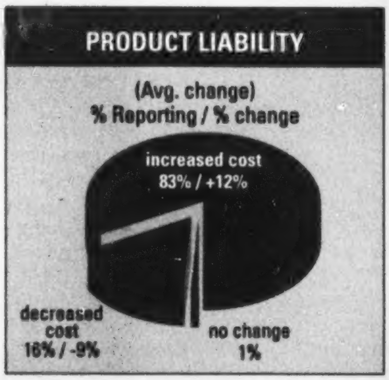
For example, distributors in Pennsylvania are often subject to higher liability costs as a result of how they might register their business with revenue collectors. Because the tax structure attempts to keep manufacturers in the state, it is generally less expensive to say that a business as a manufacturer, not a distributor. As a result, liability insurance is oftentimes inflated.

At the same time insurance costs rose, the average payroll increased as well. Nationally, employee's paychecks were 5.2% higher in 1989 than in 1988 (although median wages decreased—see "Personnel"). Interestingly, vast differences were found on a regional basis. In Central states where sales increases were 10.2%, overall payroll costs plummeted nearly 18%. Conversely, in Western states where sales shot-up 23%, total payroll costs were right behind having risen 15%.

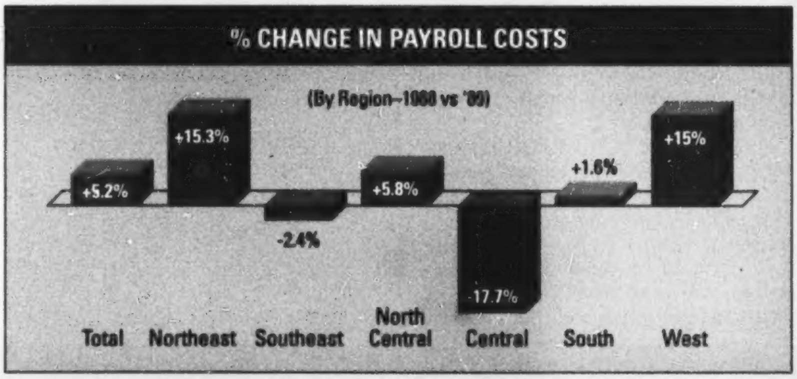
In terms of collections, regional differences were not as significant, unless you're a distributor in the Northeast. There the number of days collections were outstanding in 1989 was 48 compared to 40 in the Southeast. Nationally, the average is 44 days which is unchanged from one year earlier. As for leadtimes, 38% of distributors expect to wait longer for deliveries in 1990 than in 1989, 25% expect them to decrease, and 37% believe leadtimes will remain unchanged.



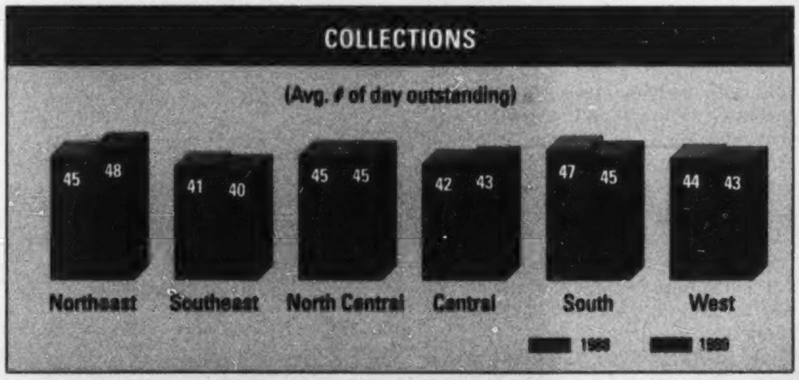
TOTAL INSURANCE COSTS



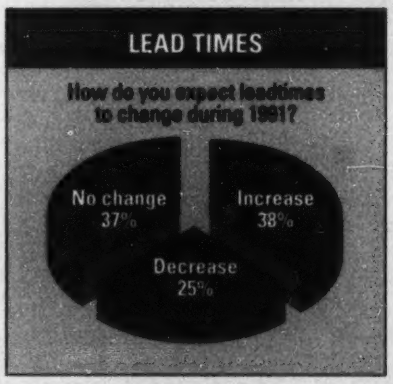
PRODUCT LIABILITY



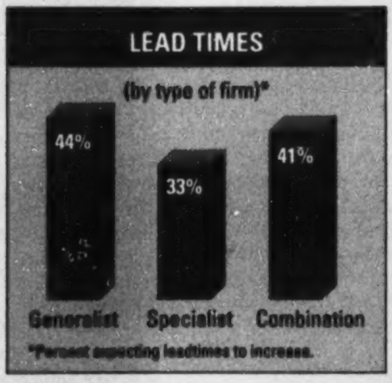
% CHANGE IN PAYROLL COSTS



COLLECTIONS



LEAD TIMES



LEAD TIMES

*Percent expecting leadtimes to increase.

Source: Industrial Distrubition

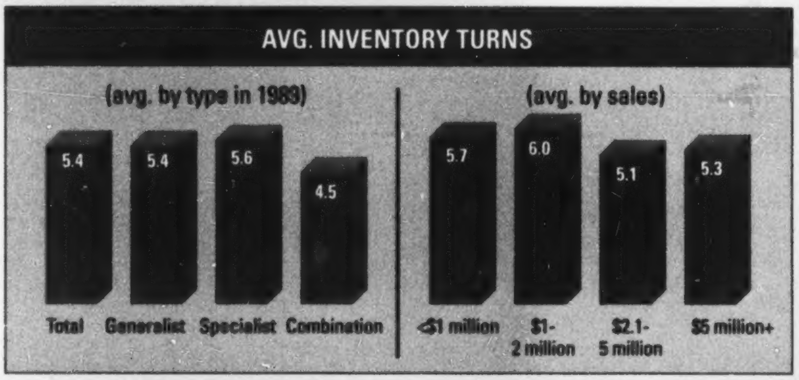
INVENTORY & RECEIVABLES

If inventory turns were the sole criteria for measuring a distributorship's efficiency, combination firms would get product in and out of the warehouse fastest, and large distributors would leave little distributors standing humiliated at the loading dock. But such is not the case.

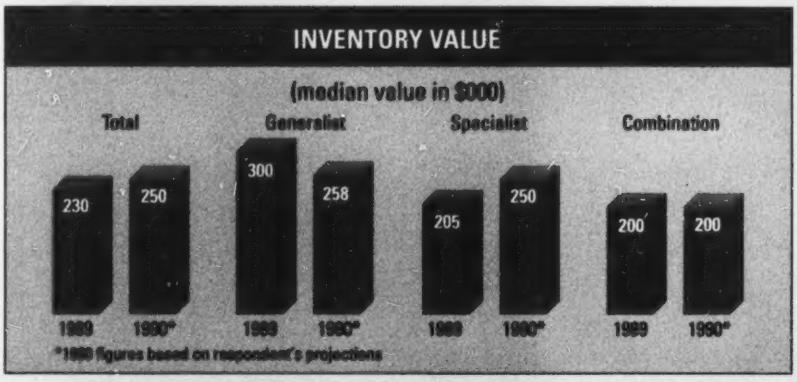
In 1989 industry-wide inventory turns averaged just 5.4 with no significant difference between generalists and specialists. Combination houses under-performed the norm by nearly one whole turn. When measured by sales, again, there was no appreciable difference. In fact, larger distributors, which are generally presumed to move inventory more quickly, failed to distinguish themselves.

As for inventory value, distributors were asked to project an increase from 1989 to 1990 levels. Should these numbers hold, industrial suppliers expect to increase inventory stocks by nearly 9% from a median value of $230,000 last year to $250,000 in 1989. This increase is expected to come from the specialty houses, who project a 22% increase in inventory value. On the other hand, general line houses expect to reduce their wares some 16%, a sure sign of insecurity for this year's selling season.

Last year, receivables were also on the rise but increased less than 2%. The strongest increase was registered by combination houses (+23%), followed by generalists (+21%), and specialists (+6%). Measured by sales size, the greatest percent increase was posted by those businesses with sales between $1-2 million (+25%); $5+ million (+18%); less than $1 million (14%); and $2.1-5 million (+8%).

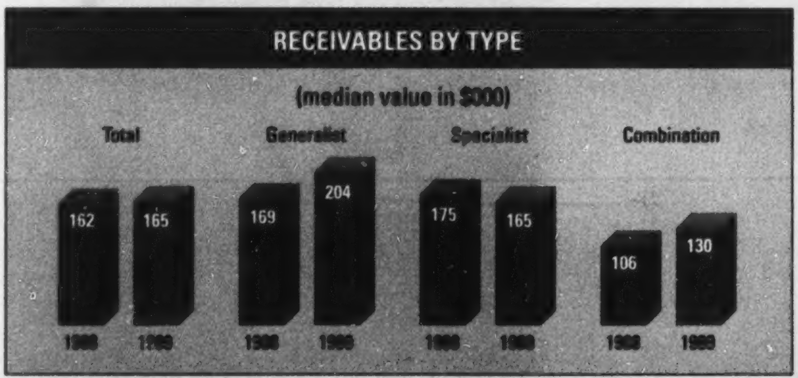


AVG. INVENTORY TURNS

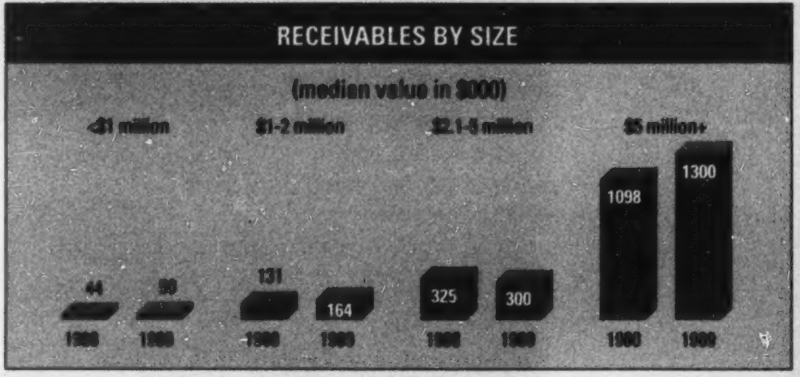


INVENTORY VALUE

*1990 figures based on respondent's projections



RECEIVABLES BY TYPE



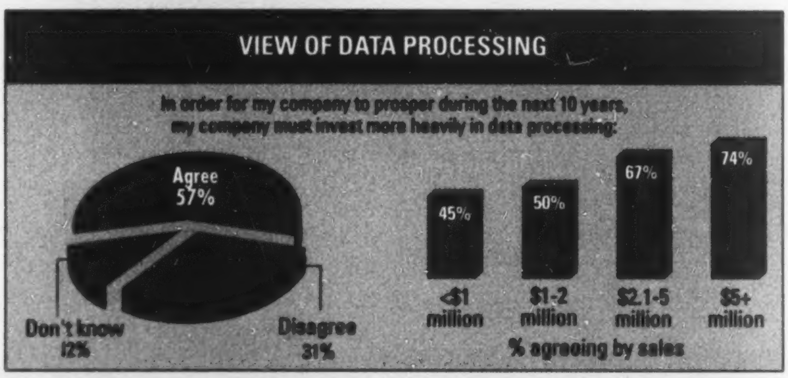
RECEIVABLES BY SIZE

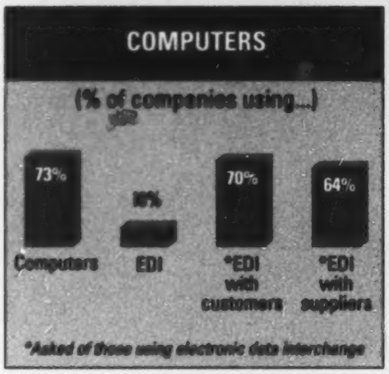
Source: Industrial Distrubition

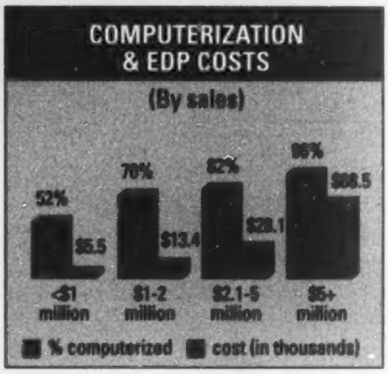
COMPUTERS

Nearly two out of three distributors believe that over the next 10 years, their companies must invest more heavily in data processing in order to remain competitive. That position differs widely, however, when viewed in terms of sales size. While only forty-five percent of distributors with sales of less than $1 million agree with that perspective, 74% of those with sales above $5 million hold that belief.

Little wonder that 96% of the nation's largest distributors are computerized, while barely half of the smallest sized businesses have purchased data processing capabilities. On average, 73% of supply houses are computerized, but relatively few (16%) have ventured into the arena of electronic data interchange. Of those distributors using EDI, 70% are communicating with customers and 64% with their suppliers.



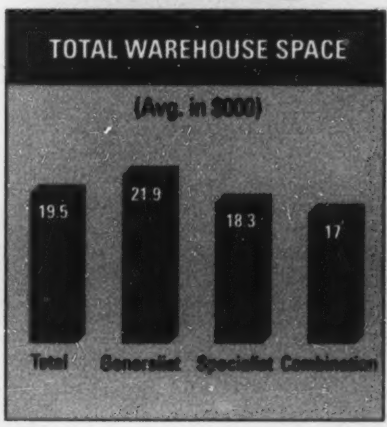


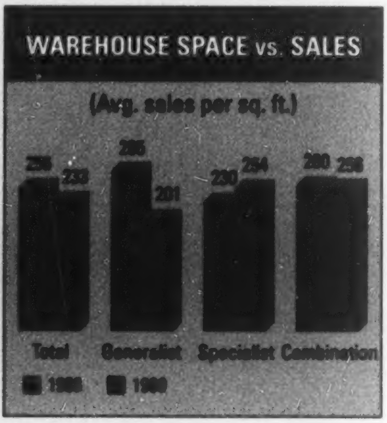


Source: Industrial Distrubition

WAREHOUSING

Sales per square foot of warehouse space is by no means an all-inclusive indicator of distributor productivity. It is useful, however, to view the number in the context of wider industry trends. The ratio is simply derived by averaging total warehouse space and dividing it by total sales. What's left is a general indicator of performance for a one year period, not a definitive statement on efficiency. That said, industry-wide sales per square foot declined 10%; generalists (whose sales increased 6.6%) failed to close excess warehouse space and found their ratio collapse some 41%. Specialists used space more efficiently to the tune of 10%, and the ratio for combination houses fell 2%.





Source: Industrial Distrubition

Important Facts About the Survey

Methodology

This year's *Survey of Distributor Operations* is ***ID***'s most ambitious effort in 44 years. A six-page questionnaire was inserted in the February issue and mailed to the top executive at each headquarter location on ***ID***'s subscription list. The same questionnaire was mailed approximately one month later to the same audience. Nearly 15,000 survey forms were delivered twice, and 831 questionnaires were returned completed, providing a response rate of 5.5%.

For statistical purposes, distributors with annual sales of less than $100,000 during 1989 were eliminated. In addition, one distributor with sales exceeding $300 million was also pulled from the sample to provide a more balanced reading of the data. Responses were received from every state; Washington, D.C., Puerto Rico, the Virgin Islands and Canadian survey forms were eliminated from the base study as the response base was too small to allow interpretation.

Distributor types are defined as follows in the *Survey* and are represented by the following (percent): Generalist (35%)—no one product category contributes 50% or more to total sales; Specialist (50%)—more than 50% of total sales comes from one major product category; Combination House (15%)—sells product to industrial and non-industrial markets while also wholesaling product. Statistical assistance was provided by Cahners Research, which estmates the *Survey*'s margin of error at ±3.5 percent.

Medians & averages

To enhance the value of data in this report, readers will find some numbers expressed as medians, others as averages. Medians define the midpoint in a statistical range—half of any group will be larger than the median, and half smaller. Medians are generally used on open-ended questions, are more representative of a group, and are less distorted by extremes. An average is simply the sum of one group divided by its total number of respondents.

How to order the Survey

The *44th Annual Survey of Distributor Operations* is a 300+ page report containing original statistics on general line, specialty and combination distributors. Operations are measured by type of firm, sales size, and by six geographic regions. Its contents are divided by vital statistics, warehousing, management, sales & profits, operating costs, inventory and receivables, and computers. A single copy is $195 prepaid, $250 if billed. Contact: Diane Mercurio, *ID*, P.O. Box 37, Boston, MA 02258. Or call 617-558-4346.

FINANCIAL SUMMARY

	Total		Generalist		Specialist		Combination		Your Figures	
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total sales¹ (in millions)	[illegible]	$1.53	[illegible]	$1.22	[illegible]	[illegible]	[illegible]	[illegible]	$	$
*Cost of goods sold	[illegible]	65.3	[illegible]	75.2	[illegible]	[illegible]	[illegible]	64.8	[illegible]	[illegible]
*Gross profit	[illegible]	34.7	[illegible]	24.8	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
*Total operating expenses	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
*Net profit (before taxes)	[illegible]	[illegible]	[illegible]	2.1	[illegible]	[illegible]	[illegible]	22.3	[illegible]	[illegible]

¹Median sales

* Percentage of total sales

Source: Industrial Distribution

Industrial Distribution

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

AUGUST 1990
A CAHNERS PUBLICATION

SPECIAL:

Fluid power outlook

EXCLUSIVE: Distributor/supplier roundtable
p.18

Full-year buying power has Drago smiling

Joseph Drago
Drago Supply
Port Arthur, TX

p.23

Industrial Distribution®
THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

VOL. 79, NO. 8 AUGUST 1990 A CAHNERS PUBLICATION

Joe Drago's smiling at the full year's worth of orders that determine his price from Stanley-Proto.

Cover photography by Janice Rubin

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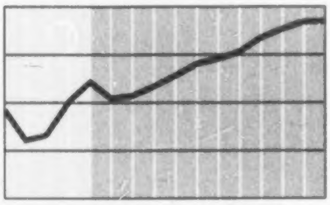

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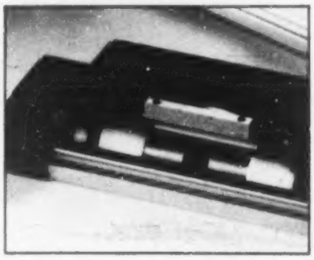

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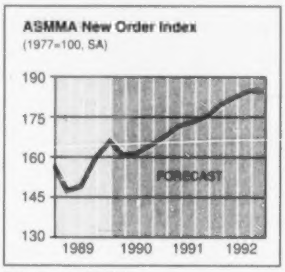
BUSINESS REPORT

BY KRIS BLEDOWSKI

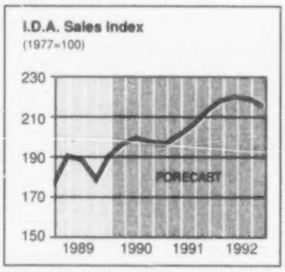
Good News! Inventories are flat

Look for repeat of mid-'80s pattern to start in 3Q.

With regard to the position of inventories, the current slowdown in manufacturing resembles the one of 1986. Beginning in late '85 inventories stopped growing and actually began falling while production slowed. This surprised many experts because business contractions have historically been accompanied by unintended inventory accumulation, especially when a slump begins. The unusual combination in '86 contributed to a severe shortage of goods when the slack proved temporary and demand spurted in mid-'87. In the ensuing expansion, inflation-adjusted total manufacturing output registered a 6.0% gain in '87 and a 5.8% growth in '88.


ASMMA New Order Index
(1977=100, SA)

Data source: ASMMA
Forecast source: Cahners Economics

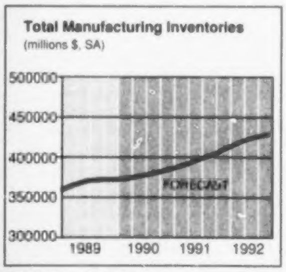

I.D.A. Sales Index
(1977=100)

Data source: I.D.A.
Forecast source: Cahners Economics

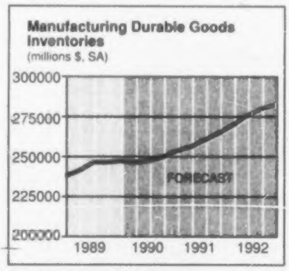
The current situation, while not as dramatic, bodes well for the next two years. Inventories for both total manufacturing and durable goods stopped growing last August and have stayed stable since. Although growth rates are still positive overall, they have begun to contract slightly. Goods produced but not sold will start to rebound in the last quarter of '90 or first quarter of '91, several months after the expansion sets in. That's when you can expect firms to begin stocking up, certain that the upswing is underway.

The ratio of inventories to shipments for total manufacturing grew marginally from about 1.57 in late '88 to about 1.60 by the end of '89, but then fell back to 1.56 again. During the '86 slowdown the ratio did not drift up significantly because the fall in shipments (down 0.8% in current dollars by the end of '86) was accompanied by a steep drop in inventories. The general trend toward lower holding inventories will continue in the future. Expect the inventory-to-shipments ratio to stay in the 1.56 to 1.58 range for the next two years.

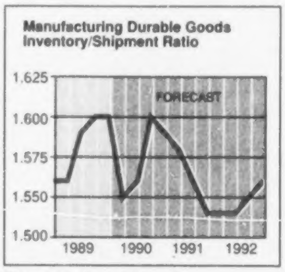
The current production lull will change when output picks up during the third quarter of this year. Our upwardly-revised forecast for industrial production (inflation-adjusted) calls for growth of 1.7% this year, and another 5.3% in '91. This expansion will not be as robust as the one we saw in '87 and '88, and it will be a bit shorter. This will bring it in line with the more muted business cycle that we have observed in the past decade. ☐


Total Manufacturing Inventories
(millions $, SA)

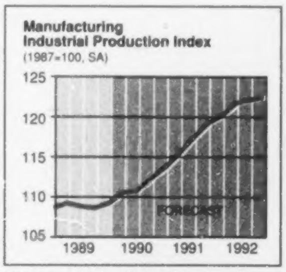
Data source: Dept. of Commerce
Forecast source: Cahners Economics


Manufacturing Durable Goods Inventories
(millions $, SA)

Data source: Dept. of Commerce
Forecast source: Cahners Economics


Manufacturing Durable Goods Inventory/Shipment Ratio

Data source: Dept. of Commerce
Forecast source: Cahners Economics


Manufacturing Industrial Production Index
(1987=100, SA)

Data source: Federal Reserve Board
Forecast source: Cahners Economics

	SALES			RECEIVABLES	INVENTORY
(1977=100)	May 1990	April 1990	May '90 vs May '89 % change	May 1990 days	May 1990 % change
TOTAL	196.1	189.6	+1.6	37.9	−0.5
EAST	175.3	157.3	+8.9	41.8	−0.1
SOUTH	265.8	264.3	+3.0	35.5	−0.1
CENTRAL	165.6	163.9	+4.0	39.4	−1.2
WEST	208.6	202.3	−6.9	33.7	+0.2

SOURCE: Industrial Distribution Assn.

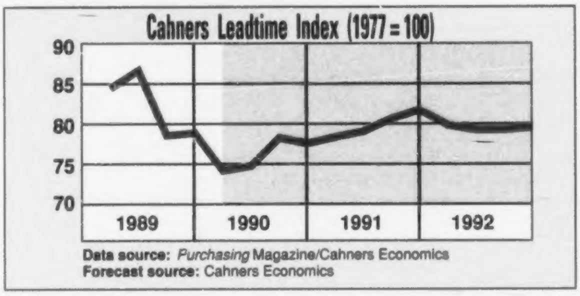
SUPPLY OUTLOOK

BY PAUL WATERS

Economic outlook brightens

Calm indices point to rebound by year's-end.

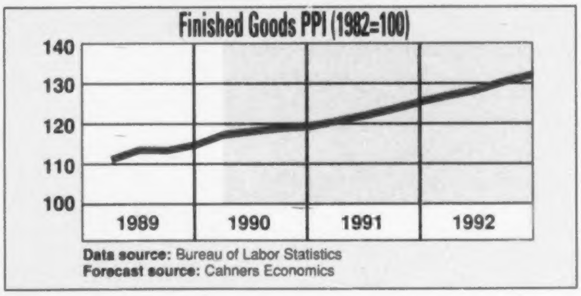
One indication of a bright economy is that several producer price indices (PPIs) continue to trend down. Surveys by the National Assn. of Purchasing Managers and *Purchasing* Magazine suggest that buyers no longer face climbing prices on industrial goods. The PPI for finished goods was virtually unchanged for the first half of the year and is estimated to be only 4.2% above year-ago levels. Similarly, inflation on industrial machinery and equipment was only 3.0% for the first six months of 1990. Fabricated metal product prices rose a mere 1.6% during the same period. Expect this good news on inflation to continue, with the PPI for finished goods rising 4.3% in 1990. Excluding food and energy components, look for a jump of only 3.5% this year.



Data source: *Purchasing* Magazine/Cahners Economics
Forecast source: Cahners Economics

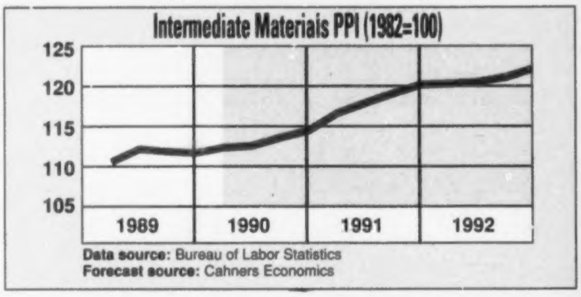
Further evidence of moderating inflation is provided by the PPI for intermediate materials. The less prices on intermediate goods jump, the less need for producers to pass higher costs onto finished goods. The intermediate materials PPI rose just 1.0% from January to June, and is expected to climb only 1.7% for the year. This will be down from a 4.6% surge in 1989. Again excluding food and energy components, expect the PPI for intermediate goods to inch up 1.0% in 1990.

Leadtimes have shrunk during the economic slowdown, further reducing pressure to raise prices. The Cahners Leadtime Index of 125 Industrial Materials continues to be below year-ago levels, indicating that buyers have few problems sourcing most goods. Through June of this year, the index was 13% below 1989's numbers. Renewed economic growth in the second half of the year will stretch leadtimes out, however, so expect the index to drop 7.2% for all of 1990. Delivery times will continue to rise through 1991 as the economy heats up, climbing 5.0% by year's-end.



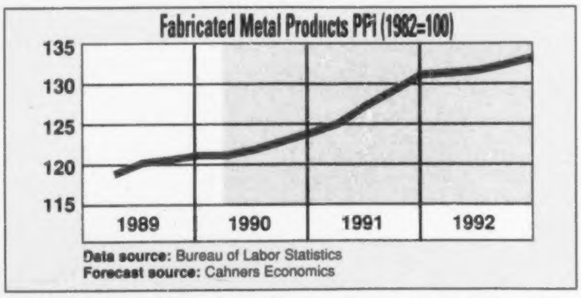
Data source: Bureau of Labor Statistics
Forecast source: Cahners Economics

Inflation on finished goods will log in at 4.3% this year and slip to 3.5% in 1991.



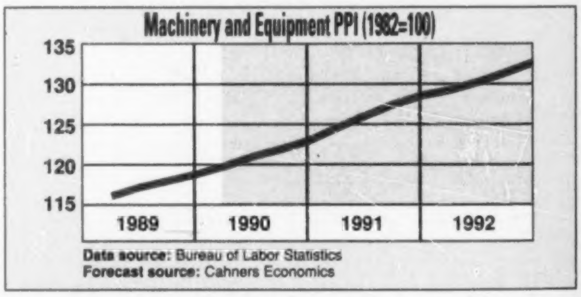
Data source: Bureau of Labor Statistics
Forecast source: Cahners Economics

Low price hikes on intermediate materials will help tame finished goods inflation. Look for a 1.7% price hike in 1990.



Data source: Bureau of Labor Statistics
Forecast source: Cahners Economics

Prices of fabricated metal products will climb only 2.4% this year, after surging 4.9% in 1989.



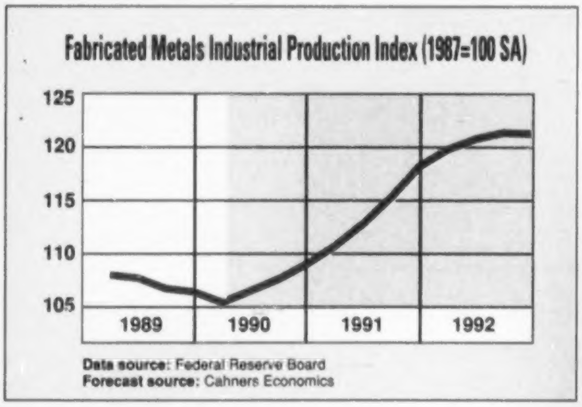
Data source: Bureau of Labor Statistics
Forecast source: Cahners Economics

Industrial machinery prices will rise 3.3% this year and higher demand will boost tags 4.3% in 1991.

SUPPLY OUTLOOK

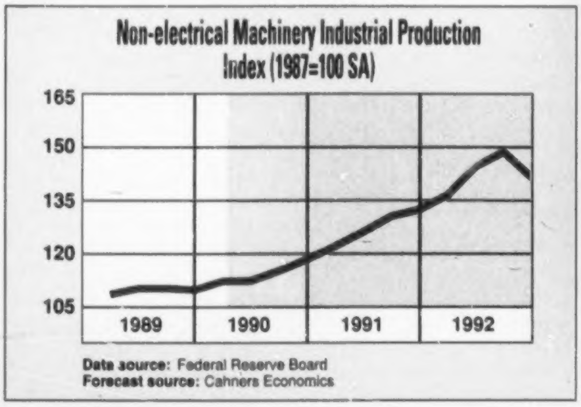
OEM industries rebound in 1991

Combined output from the various original equipment manufacturing (OEM) industries will be virtually unchanged in 1990, but should surge 6.8% in 1991. The short-term outlook for the fabricated metals sector typifies the group as a whole. These metals will see production stagnate this year, but will then swell at a healthy rate of 6.7% next year. Production of both hardware and fasteners will also be unchanged this year, as end user firms cut back on inventories of non-essential goods. However, projections for each of these sectors call for encouraging rebounds next year, as improved cash flow entices manufacturers to rebuild stocks which they had depleted this year. On the other hand, and in a somewhat surprising development, the non-electrical machinery sector will buck the prevailing OEM trend by posting a significant 4.0% expansion this year, followed by a truly impressive 10.4% growth in 1991. High levels of capital outlays over this year's short term, and an anticipated improving economy next year will spur these surges. ☐



Data source: Federal Reserve Board
Forecast source: Cahners Economics

The fabricated metals sector is expected to turn in a lackluster performance in 1990, but then post a robust 6.7% gain in sales next year.



Data source: Federal Reserve Board
Forecast source: Cahners Economics

Non-electrical machinery sales are showing surprising strength this year, with 4.0% growth anticipated by year's end. Expect an additional 10.4% expansion in 1991.

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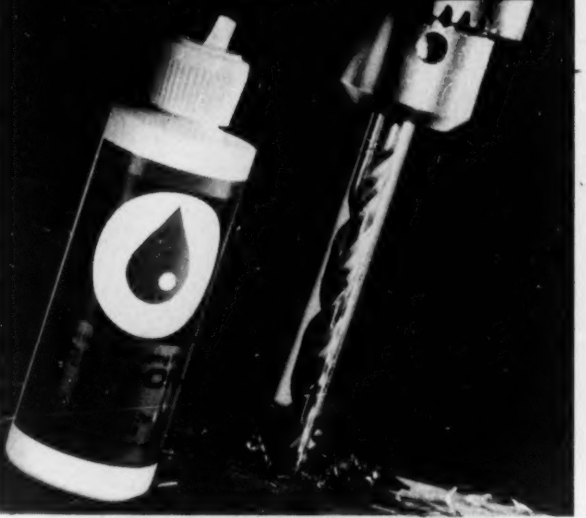

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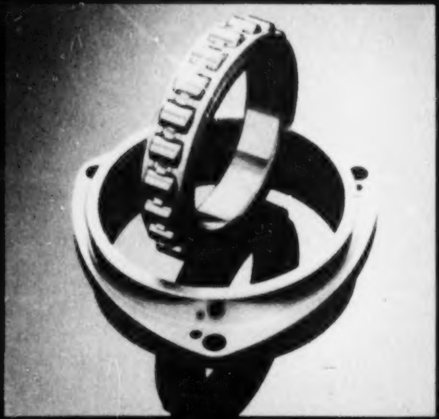

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Industrial Distribution®

THE MANAGEMENT & SALES MAGAZINE FOR DISTRIBUTORS

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Buying a computer? **page 33**

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TECO, Inc.
Hatfield, PA

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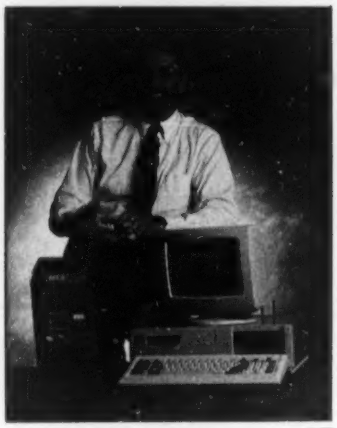
Industrial Distribution®

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

VOL. 79, NO. 9 SEPTEMBER 1990 A CAHNERS PUBLICATION



TECO's Clinton Bishop finds motion control sparks PT.

Cover photography by Eugene Mopsik

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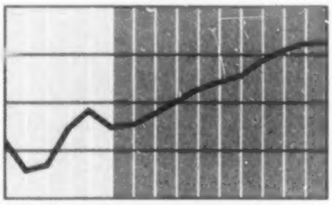

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NEWS

Distributors "NIMBY" on marketing

Marketing? Not in my back yard, say I.D.A distributors. They value the concept, but few use many of the tools.

There's lots of grist for the Industrial Distribution Assn.'s (I.D.A.) market development mill. And much of the material stems from the 1990 *Marketing Survey*, which found a 33% gap between the perceived value of various marketing tools and their actual use by I.D.A. members.

Sam Mitchell, Market Development Committee chairman, explains that of the 36 marketing tools and services surveyed, the average assigned *value* was 80%, while the average *usage* was 47% (see p.10).

> "This survey shows that distributors have a lot of work to do in the area of marketing."—Mitchell

"This shows that distributors have a lot of work to do in the area of marketing," Mitchell says.

The survey, conducted for I.D.A. by Atlanta Direct Marketing, was based on 344 responses, or about 32% of 1,100 questionnaires mailed. Mitchell notes that the high response rate indicates an increasing thirst for marketing knowledge on the part of I.D.A. members.

The survey had a threefold purpose. First, to determine the percentage of I.D.A. firms currently using marketing tools. Second, to find out the percentage of firms which believe these tools and services are valuable. And third, to identify the areas in which I.D.A. might offer seminars or other educational events to help members implement marketing programs.

Survey highlights show that:

- Only 15 of 36 marketing techniques are used by 50% or more of the survey participants.
- A mere 17% of the participants use outside marketing services like name lists or direct mail services.
- Just 29% analyze the costs or results of marketing campaigns.
- About 39% use automated marketing tools like EDI, desktop publishing or toll-free 800 number lines.
- Just 11% calculate customer lifetime value, widely considered a powerful tool for developing marketing budgets and analyzing results.

On the upside, the survey reveals that:

- About 97% of the respondents use prospect leads forwarded by manufacturers.
- At least 88% use catalogs.
- Fully 79% use direct mail fliers and letters.

To be sure, some distributors are launching marketing campaigns. For example, Jim Murrell, committee member and manager of direct marketing at Briggs-Weaver, says that

Florida group sources idle PT stock

MIAMI, FL—Whether the bearing industry is in an upswing, downswing, shortage situation, or at capacity, Bruce Marchetti, president of Bearing Source, believes he has a product that bearing and PT distributors will find hard to ignore.

Convinced that there's a market for a distributor's "dead" inventory, Marchetti is offering distributors access to a central data base filled with bearing and PT products that, in some cases, can be purchased at 25% below factory price.

According to Marchetti, for $95/month, a distributor can both access the database and list his "dead" stock. Those who want only to list product can do so for free. All that's needed is an IBM compatible PC, a modem and a supplied diskette. For distributors without PC's, Marchetti will provide the necessary equipment for an additional one-time fee of $850.

To date, 30 companies have signed on, 15 of them paying customers. Marchetti's goal is to have 200 paying customers on-line by next year. For those distributors accessing the database, Marchetti points out that all sales are negotiated with the distributor who listed the material.

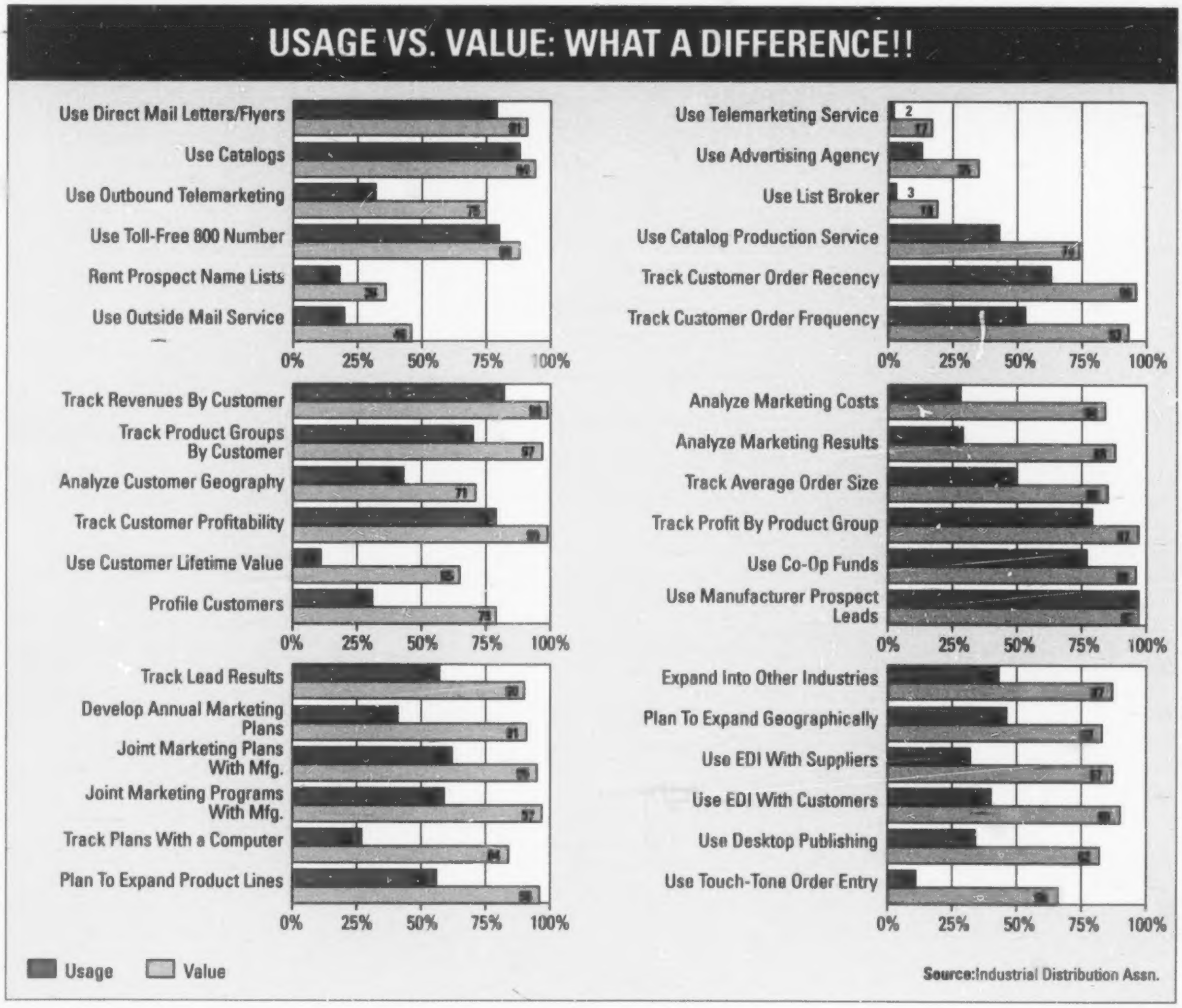
"Recently, the shortages in our industry made it difficult for many distributors to source material," said Marchetti. "But regardless of the situation, the system provides the distributor with tremendous benefits. By using our system, distributors can add to their profitability and move 'dead' inventory at the same time." For information, call (305) 573-0528.

the Texas firm is experimenting with data base marketing and, earlier this year, started a direct mail catalog program.

Doug Smith, also a committee member, reported that his Boring and Smith Div. in Atlanta has also developed a direct mail catalog program, and has had tremendous telemarketing success.

Still, Smith cautions his colleagues to "view these various marketing techniques suspiciously. My recommendation is for the distributor to evaluate each tool and decide whether it applies to his business."

According to Mitchell, the Market Development Committee met in early September to review survey results. He says the committee will present recommendations to the I.D.A. Board later this year. Those interested in receiving a full copy of the survey may call I.D.A. at (404) 325-2776. ☐



Source:Industrial Distribution Assn.

The difference is clear: I.D.A.'s survey found a startling gap between the perceived value of 36 marketing services and their actual use on a day-to-day basis by association members.

Safety next on Grainger's list

SKOKIE, IL—By agreeing to acquire two Southeastern safety equipment houses, W.W. Grainger took another step toward becoming a leading national supplier of specialty products.

Robert J. Gariano, vice president of Grainger's Specialty Distribution Group, projects that the two companies, Allied Safety Supply of Georgia, and Jones Safety Supply of Roanoke, will add $31 million to the group's sales.

Gariano says also that safety equipment marks Grainger's fourth specialty product area (see chart). The other three are spare parts (Parts Company of America), general industrial (Vonnegut, Mansco-Lakeshore, and others) and sanitary supplies (JANI-SERV).

During the later half of the '80s, Gariano explains, Grainger management studied 21 specialty product markets. To date, management has decided to focus on spare parts, general industrial, sanitary, and now

[*continued on pg. 12*]

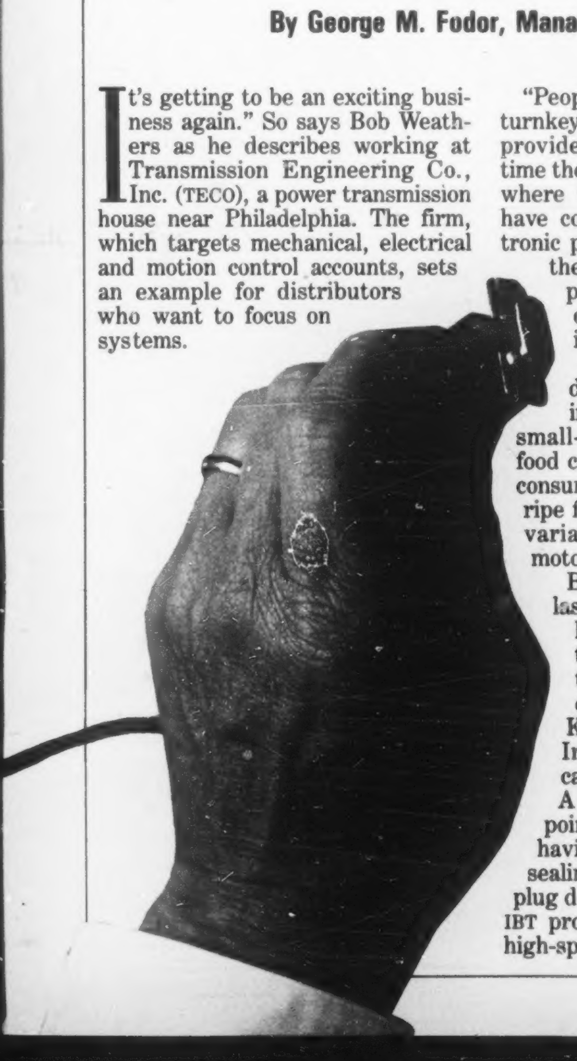
MARKET FOCUS

Plug into PT profits

Quality movements are great! Need proof? Check out a PT house that's into motion control and catch the heady action.

By George M. Fodor, Managing Editor

It's getting to be an exciting business again." So says Bob Weathers as he describes working at Transmission Engineering Co., Inc. (TECO), a power transmission house near Philadelphia. The firm, which targets mechanical, electrical and motion control accounts, sets an example for distributors who want to focus on systems.



"People like the idea of getting turnkey service that systems work provides," Weathers says. "For a time the market was trying to decide where it was going. It wanted to have confidence in the newer electronic products." That confidence is there now, he adds, and TECO people get high on the customers' trust in the firm's ability to tie a system together.

Weathers also reports that demand for systems is "starting to filter down to mid- and small-size companies, especially food companies." He sees food and consumer products as two markets ripe for state-of-the-art AC and DC variable speed drives, stepping motors and servo units.

But that's not all. Over the last three to four years, TECO has added photoelectrics, optics and even light curtains to their offerings. Several hundred miles to the west, in Kansas, Don Mogan of IBT, Inc. says vision systems are catching on in a very big way. A local brewery, which Mogan points to by way of example, was having trouble with filler plugs sealing beer kegs properly. If the plug doesn't seal, the beer goes flat. IBT proposed and sold a system of high-speed cameras that inspect the kegs, as Mogan exclaims, "almost faster than an eye can see."

Servos. Optics. High-speed cameras. These are part and parcel of today's power transmission (PT) market. Mogan puts this sector in perspective when he says that "the quality process across the country has increased the need for precise control."

And it's this demand for precision that has brought digital technology to the PT forefront, and changed what distributors sell and how they sell it.

SALES BY THE BATCH

The best news for PT distributors who sell systems is that there's more—much more—than just products involved. Systems mean services. Design work. Installation. Programming. All types of value added business opportunities.

"Every new servo sold requires some form of motion control and programming," says Darrell Ruthrauft of Cleveland Machine Controls (CMC). And it is front line distributors who sell this programming and thereby add value to hardware and increase total margins.

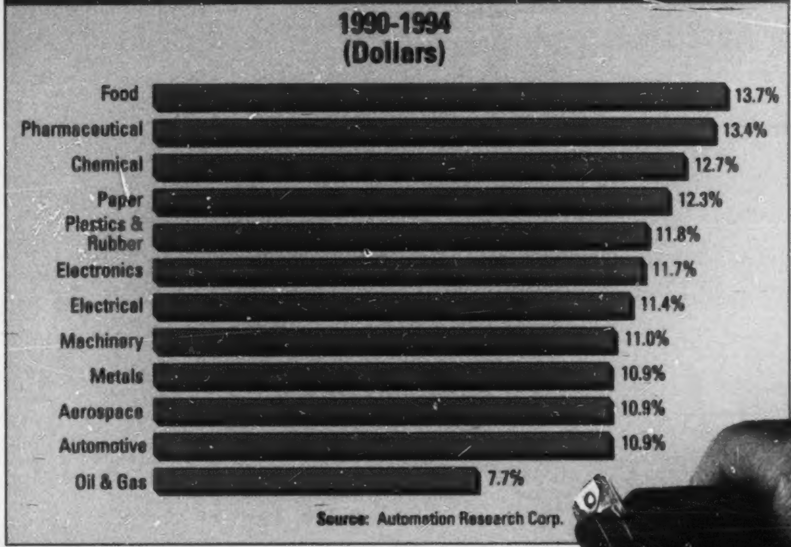
Users are so dependent on outside help that the service portion of batch control projects, for example, is expected to increase by 50% within four years. In 1989, as data supplied by Automation Research Corp. (ARC) show, service accounted for 26.34% of the $760.4 million spent on batch control system projects. By 1994, ARC projects, service will capture 39.85% of the $1.09 billion that food, pharmaceutical and chemical processors will spend on controlling batch production.

That's $399 million in service sales—which can't be treated as commodities—to just one portion of the manufacturing community. In one year. No wonder PT systems houses are excited.

Fred Glow, ARC spokesperson, explains that "users want suppliers to help them throughout the entire automation project cycle." Areas ripe for distributor input, he says, include:

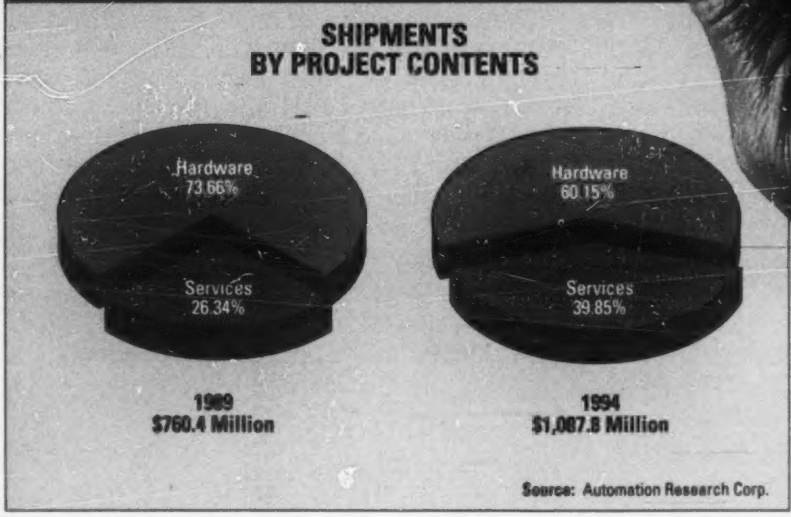
- automation planning;
- cost justification;
- design;
- project implementation;
- installation;
- start-up;
- on-going maintenance.

AVERAGE ANNUAL GROWTH RATE OF PLCs

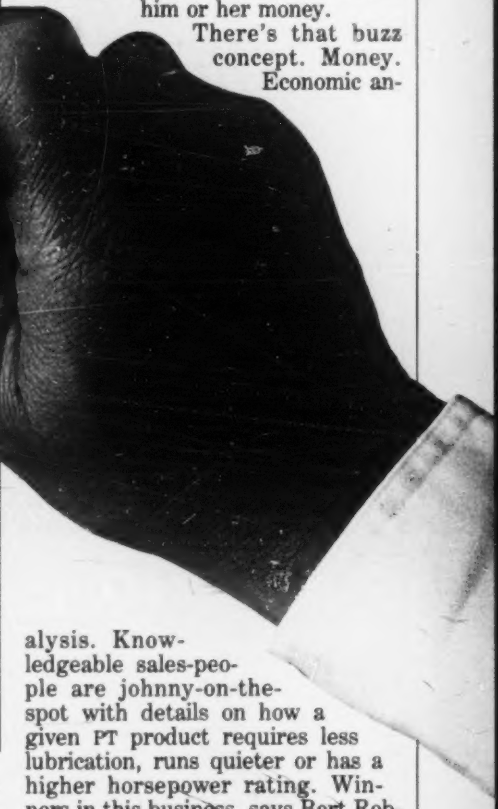


Source: Automation Research Corp.

BATCH CONTROL SYSTEMS



Source: Automation Research Corp.



Given the breadth of this list, it's easy to understand why TECO's Weathers talks about winning a customer's trust. Glow says, quite bluntly, that "users buy according to a perceived comfort factor."

STAFFING FOR SYSTEMS

If optics, light curtains and vision systems are finding their way onto PT distributors' line cards, it's only natural that technical talent show up on employment rosters. Alan Fortna of T.B. Wood's Sons Co., says that "large PT distributorships, both independents and chains, are putting together electrical departments; this was unheard of five years ago."

Market position, Fortna adds, is the driving force behind such expansion. "In the past," he says, "many PT guys felt that electrical products were too complicated to handle. Now, with V-belts so competitive, for example, they see electrical as a way to differentiate themselves. Certification gives them something special to take to market."

James Larson, Power Transmissions Corp., a Pirelli Co., finds distributor demand for technical support extending deep into MRO business as well. "What is the cost of one hour's downtime?" is a question which Larson says service-oriented distributors must constantly ask.

But getting answers to that question is no longer enough, he continues. "MRO people want to reduce downtime, and they want also to cut down on labor and maintenance costs. And they want to increase the life of components."

The need for MRO technical support is evident, Larson says, when the customer asks how a new product is better, and how it will save him or her money.

There's that buzz concept. Money. Economic analysis. Knowledgeable sales-people are johnny-on-the-spot with details on how a given PT product requires less lubrication, runs quieter or has a higher horsepower rating. Winners in this business, says Bert Robins of CR Services, quickly add how such design features translate into performance benefits such as longer life, more uptime and lower total cost.

"By being close to the user's problem, and by understanding it," Robins explains, "the distributor is in the best position to lower cost. Even in the replacement market, the traditional distributor must show how it's not the price of a seal or bearing that counts, but the effectiveness of that component."

DESIGN TALENT

In the motion control arena, according to CMC's Ruthrauft, distributors now get much more involved in engineering than they have in the past. William G. Simpson of Simco agrees. "We've put on more engineering, including one electrical and two mechanical specialists," he says.

"We couldn't afford engineers five to seven years ago," Simpson adds, "though the products then did not require that level of support."

Today, from where Simpson sits, having in-house engineering means more than survival, it means growth. "We were kind of coasting along," he says, "then we got into motion control, and our business has really taken off." Having technical talent, he concludes, has "opened a lot of doors for us."

Take something special to market: Fortna sees electrical certification as one means of differentiation.

Clinton Bishop, president of TECO, says that his firm has always been engineering oriented and that now, more than ever before, "you have to have competent engineers. When it comes to a drive system, we get involved—not so much in the selling—but in the development."

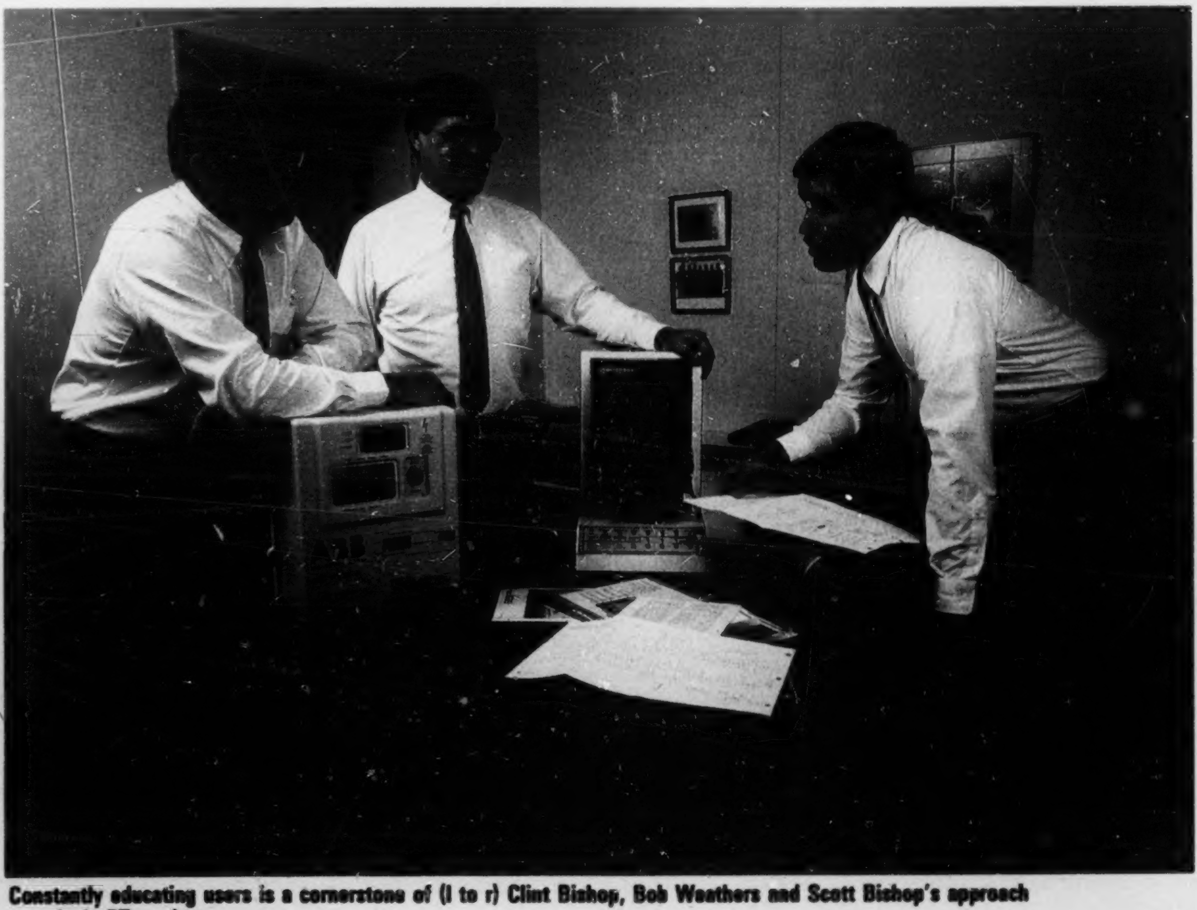
To give the market the level of service it demands, TECO has one mechanical and one electrical engineer who work strictly in-house, and two additional sales engineers.

Having these design skills on-hand is one thing, but using them well is an often complex task. "There's a great deal of free engineering that goes on," Bishop cautions. "So when you quote a job, you can't give the user a shopping list."

Bishop's point suggests that, while the motion control market is heady right now, and customers demand service, managers still have to control staff exuberance so that margin-making services aren't given away.

TARGET A NICHE

A few years back, Mogan reports, IBT was free lancing so much work to a software house that his firm just went ahead and bought it. "Better to own it than to pay rent on it," he says. But the acquisition, now called Sunrise/I.A.D. (for Industrial Automation Div.), has put IBT into robotics and programmable logic controllers.



Constantly educating users is a cornerstone of (l to r) Clint Bishop, Bob Weathers and Scott Bishop's approach to today's PT market.

"This portion of our business is growing very rapidly," Mogan says. So much so that, while bearings and other mechanical components still account for the lion's share of IBT's business, the firm is in the process of essentially redefining itself.

Simco's Bill Simpson also sees how moving into automation is an evolutionary process. "As people move into the control aspect of the market, they'll tend to drop off products from the other, more mechanical side of the business," he says.

Such movement, he explains, is often in response to pressures from new supplier/partners who want their distributors to project a state-of-the-art image that wins the confidence of high tech-sensitive buying influences.

Some distributors aren't at all bashful about trumpeting their image. TECO's Weathers says that his firm runs "a very aggressive direct mail campaign. We have 4,000 names on our list, and at least once a month we send out a piece that focuses on one of our more sophisticated products.

"We also plan to launch a telemarketing program in the near future, and we're considering putting on more product specialists." This latter strategy is absolutely necessary, Weathers explains, because the market demands constant education. "We simply have to make users aware of where the products work," he says.

THE BIGGER PICTURE

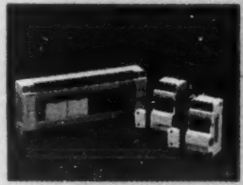
Long-time PT distributors often shake their heads in amazement at the scope and pace of today's motion control activity. Mogan, in Kansas, says, "Sometimes I wonder if we're not trying to build a rocket ship to get over to Lawrence, which is about 30 miles away."

But even mechanical suppliers, such as Gene Addington of Diamond Chain, appreciate what the quality movement has meant to the PT industry. "Ten years ago," Addington says, "there was a push in purchasing to buy price. Now, overall cost is being considered more so than it was in the past.

"There's no way we can compete in the low- and mid-range markets," he adds. "But that's okay. We and the top line distributors are going to market with the same message. We know what it costs to get where we are. We're high. But we're good." 'Nuf said. ☐

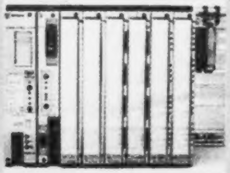
Control options

Use the Reader Service Card to get technical and application details on these products.



Analog I/O modules monitor 0 to 10 VDC or 4 to 20 ma signals for speed, temperature and pressure. Input modules have four channels; output units have two. 5The units, which are compatible with any TSX 17-20 micro programmable controller using PL7-2 programming language, provide 11 bit + sign accuracy and ±2047 point resolution, as well as an 80 ms/channel update time. *Telemecanique, Inc.*
Circle No. 349

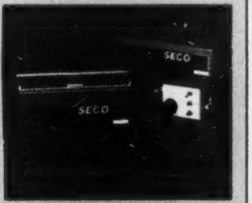
Splash-proof DC motor and control systems are rated for use in conveyors, woodworking equipment, pumps, and machinery found in textile, metalworking and food processing applications. Design features include voltage and current followers, 8-bit digital inputs, on-board optical isolation, and dynamic and reversing braking. IP-44 compliance protects the units against solid particles larger than 1 mm, as well as from water. *Bodine Electric Co.*
Circle No. 351



Mid-size PLC controls up to 2,048 digital and 128 analog I/O points. Eight-, 16-, and 32-point digital input and output modules have communication co-processors that provide networking and serial interface options for connection to host computers or other programmable controllers. Processor features include scan times under 3 msec/K, user memory up to 48K words and floating-point math. *Westinghouse Electric*
Circle No. 354

HVAC variable speed drive uses soft-start circuitry to limit input power for less-than-full-load starting of fans and pumps. Full-spectrum, switching, pulse-width modulation also reduces motor noise. The unit's speed range of 3 to 60 Hz is programmable to higher frequencies. A wall-mounted NEMA 1 enclosure is standard. All programmed settings are held in nonvolatile memory. *Reliance Electric*
Circle No. 353

Modular design, including hinged printed circuit boards which permit easy replacement of major components, is a key feature of this ⅛ through 5 hp DC motor controller. Speed and torque control options, as well as dynamic braking and reversing, are standard. All units can be operated by an external speed signal or process control system. Enclosed models meet NEMA standards 3, 4, and 12. *T.B. Wood's Sons Co.*
Circle No. 350



AC inverter functions as a stand-alone adjustable speed drive or interfaces with any PLC or process control computer. Available in chassis and enclosed models, the drive's output is selectable from 2 to 400 Hz. Four models are offered within the ¼ to 2 hp range. Standard adjustments include min/max speed, acceleration, deceleration, and boost. Potentiometers provide accel/decel control of 0.5 to 30 or 30 to 300 sec. *Warner Electric*
Circle No. 352

SPECIAL REPORT

Councils launch sales ammo

Strong distributor advisory councils help target suppliers' market research, R&D and public relations efforts.

By Doug Harper, Contributing Editor

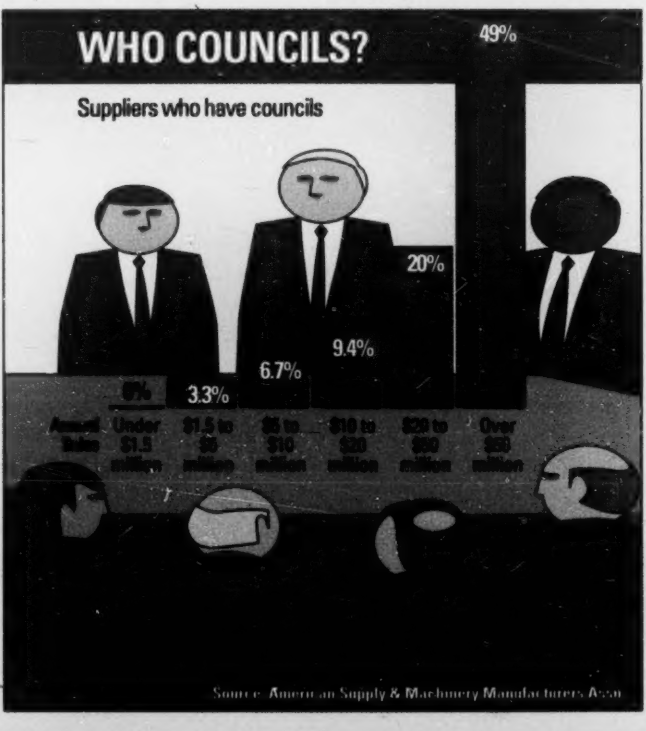
Distributor advisory councils provide manufacturers with ammunition they need to win the battle for customer loyalty. But, as an American Supply & Machinery Manufacturers' Assn. (ASMMA) survey shows, large firms use this ammo more than small firms do (see chart).

Of the 302 firms ASMMA polled, not one with sales under $1.5 million has set up a formal mechanism for getting insights from distributors. On the other hand, 20% of firms with sales from $20 to $50 million have advisory groups, as do 49% of the firms with sales over $50 million.

The survey also showed that criteria for selecting distributors to serve on a council include length of the business relationship, geographical location, sales volume, and the distributor's specialty.

"The nineties have become the decade of the customer rather than management by balance sheet," says Dr. James D. Hlavacek of Wake Forest Univ., "and if you don't work closely with the distributor you can't stay close to your customer." ASMMA members must be getting this message, for 22.4% of the survey's respondents who don't have advisory councils plan to start one in the future.

Hlavacek, who adds marketing and distribution consulting work to his academic duties, notes that properly constituted and organized distributor councils provide guidance and advice on both marketing strategies and new product introductions. He notes also that councils are prime sources of industry intelligence.



Source: American Supply & Machinery Manufacturers Assn

One company that has actively promoted distributor councils for the last 23 years is Loctite Corp. According to Kevin R. Boyle, the firm's marketing manager/industrial distribution, seven Distributor Advisory Council members are appointed for three-year overlapping terms, with an optional member at large appointed for a one-year term.

"We try to appoint members who represent a cross-section of our total distribution program," says Boyle. "So we have bearing distributors, specialty distributors and general line distributors." In addition, the distributor mix on Loctite's council is determined by the distributor's location and size.

While the primary work of Loctite's group is accomplished at its annual fall meeting, Boyle says that members are queried periodically concerning topics of interest to the company. For example, Loctite recently polled its council on such subjects as buying groups and systems contracts.

Unlike companies which solicit distributors' opinions on new product development and present councils with previews of prod-

Councils launch

uct prototypes, Loctite views its group's function as being primarily intelligence gathering.

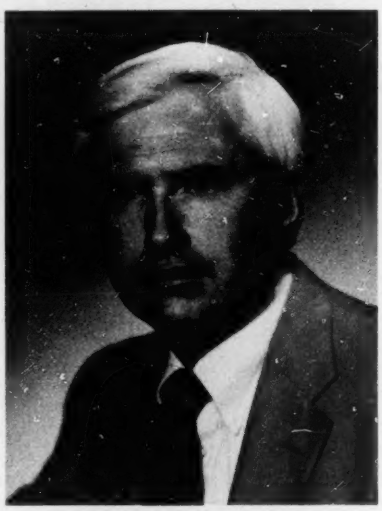
"We use our council to try to understand what is happening in industrial distribution," Boyle explains. "We're trying to find out what the trends are, where the business is going and what is important to the distributors."

Loctite also takes to heart Hlavacek's admonition to widely circulate Advisory Council findings. "We publish our Advisory Council minutes all over the world," says Boyle. "Every Loctite distributor and every Loctite salesman, every customer service and technical support person, as well as anyone else in the firm who would like to read them, is given a copy of the minutes of our council meetings."

In a product-oriented use of market intelligence, Skil Corp. views its distributor council as a prime component in new product development, almost an adjunct to its R&D.

Frank Feraco, the company's senior vice president/sales, says that Skil has a dual purpose in operating its Industrial Distributor Advisory Council. "One is to give our customer a sense that we are interested in his insights, which is important in the overall building of relationships," says Feraco. "But more importantly, we're looking for ideas for product innovation."

Feraco says that distributors both propose ideas for new products and offer suggestions for modifications and variations on ideas presented by Skil. "When it comes to product development, we want distributors to know where we're going and whether they think it's the right way to go," says Feraco. "Some of the products that we're developing today are a direct result of ideas that distributors have given to us over the years."



'We use our council to try and understand what is happening in distribution.'—Boyle

Council as soundingboard: Justrite's Stevens wants feedback on service, pricing, product quality, and advertising.

As an example he cites Skil's development of a miter saw several years ago, created at the suggestion of Skil's council.

COUNCIL COMPOSITION

Wake Forest's Hlavacek itemizes guidelines that he says apply to the creation and functioning of distributor advisory councils. Chief among these is that supplier management should determine—preferably in writing—why it wants a council. Such a statement should include multiple objectives agreed to by senior management and sales personnel.

Secondly, the council should contain a cross-section of distributors, "not just cronies and buddies," says Hlavacek. The council should represent different markets, different sized customers and different geographic regions.

He notes that effective distributor councils are organized around a written set of by-laws which spell out such details as council management and staff, composition, requirements for membership, and length of service.

Hlavacek also stresses that critical to the success of any council meeting is an agenda that has been meticulously prepared in advance. To be most effective, the agenda will have input in equal measure from both distributors and the manufacturer.

He adds that companies launching a new distributor council should consider using a professional facilitator to run the first few meetings. And he very strongly urges council meetings not be run in connection with other conventions or sales meetings.

Finally, says Hlavacek, there must be timely follow-up to the proposals presented at the meetings, with the results and actions taken being communicated to all of the manufacturer's distributors. "Most manufacturers disseminate too little, too late and to too few," he says.

On the negative side, Hlavacek states categorically that relatively few councils are well run, and many are a waste of time. He also claims that personnel charged with running the Council meetings are frequently less than skilled.

Suppliers, Hlavacek continues, are often schizophrenic about distributor councils. Some companies seem unable to decide whether their purpose is primarily social with business overtones, essentially business-related with a social component, or a combination of the two.

"The precision of a
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mechanical assembly is
only [illegible] the
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individual components
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Councils launch

"Many companies run councils only as hyped-up sales meetings or public relations events," says Hlavacek. "Under those circumstances, the companies ought to call them something else, because they aren't worth the time or the money they require." He adds that although social activity at distributor council meetings is very important, it should not be the main focus.

WHAT'S THE AGENDA

According to ASMMA's survey, larger manufacturers hold distributor advisory meetings at resorts more frequently than do smaller firms. Significantly, 100% of the manufacturers grossing $1.5 to 5 million in the ASMMA study reported that their meetings were "all business" while 66.7% of the manufacturers in the group with more than $50 million in sales reported that their meetings were a "combination of business and recreation."

Larry Postelwait, president of The Crosby Group in Tulsa, says that, with a brief hiatus, his company has had a distributor advisory panel for a decade. Crosby holds two- to three-day meetings twice a year for its panel of eight distributors which the company calls "consultants."

Says Postelwait, "The format begins usually the night before the first day of the meeting when we take the distributors on a tour of our facilities and then to dinner. The next morning we get together and present an agenda of the points we would like to cover. Then the distributors meet by themselves for about an hour and develop their own agenda."

Meeting day mornings are devoted to discussing the topics, while afternoons are reserved for leisure activities, notably golf. Although Crosby has always sought out the presidents of distributorships as its prime panel members, the company has amended this policy.

"One of the things we've started to do is invite the distributor's second in command," says Postelwait. "We've found that often we will correct a problem during our meetings, but that the same problem will surface again because many of the presidents aren't as attuned to the day-to-day operations as their right-hand people."

Distributor input helped Skil Corp. respond to what users said they wanted in a power miter saw.

Arthur M. Stevens, president of Justrite Manufacturing Co., says that his firm operated distributor councils for about 15 years but then, like 10% of the companies in ASMMA's survey, let them lapse. Last year the company reincarnated its councils.

"We try to get a geographic spread as well as a blend of types and sizes of distributors," says Stevens. "And because our product line is safety oriented, we sell through a wide variety of distributors including general line and safety specialists."

Stevens says that the major purpose of Justrite's Distributor Marketing Council is serving as a sounding board for everything from new marketing concepts and new products to promotional plans and advertising campaigns. Justrite's Council also participates in an annual survey in which its members are asked to rate the firm on a variety of attributes including customer service, pricing, product quality, and advertising support.

He notes that, for any given issue, the company does not necessarily seek a consensus from its seven-distributor panel. "It all depends on the intensity of the disagreement," says Stevens. "If the Council thinks it's a terrible idea by, say, four to three, we might abandon it."

But he adds that in a high number of cases, there is virtual unanimity among the group's distributors. "I feel that a distributor advisory council is a very sound concept and it provides excellent input that a company probably couldn't obtain any other way," he concludes. ☐

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Industrial Distribution

THE MANAGEMENT & SALES MAGAZINE FOR DISTRIBUTORS

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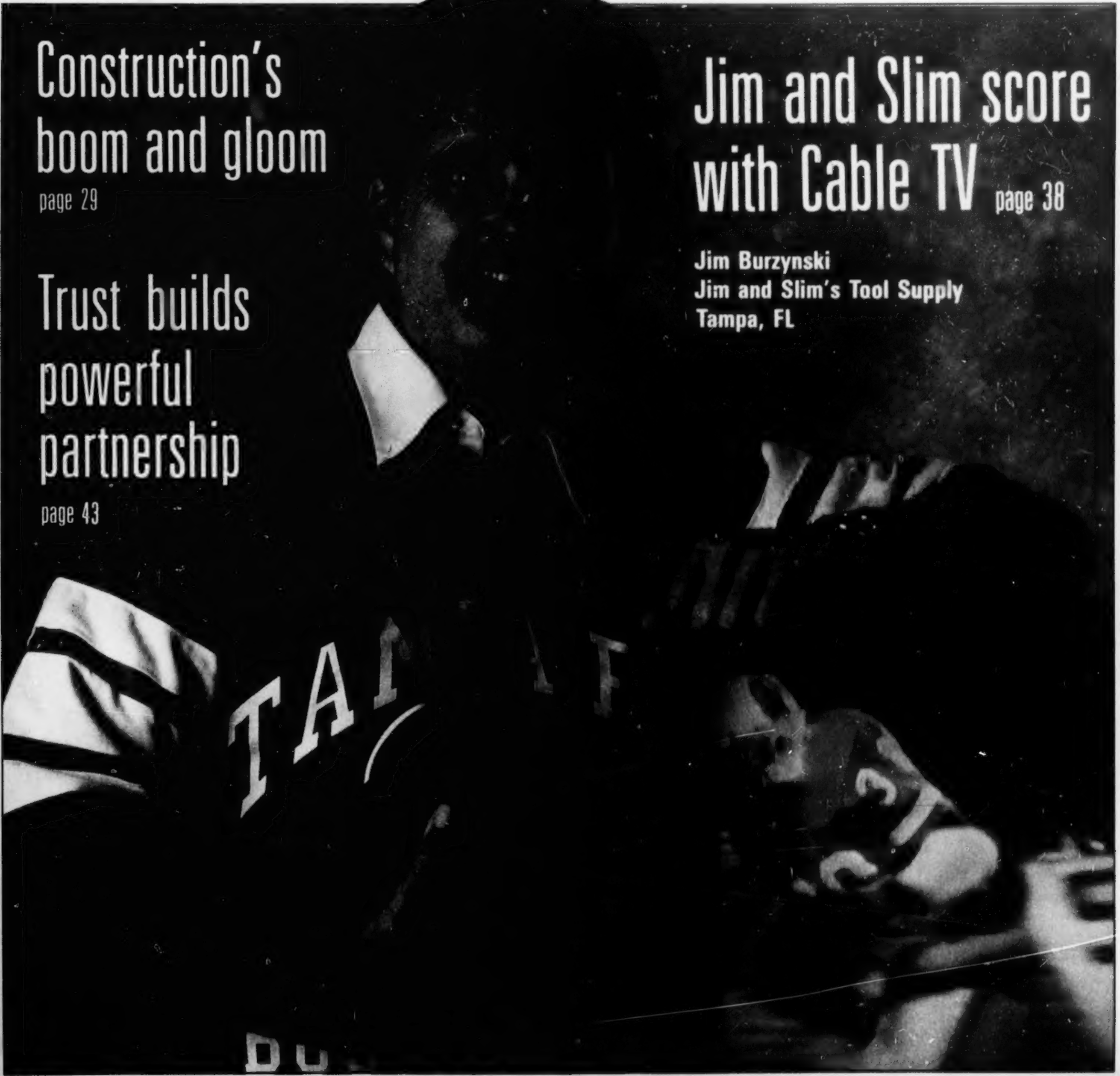

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Jim Burzynski
Jim and Slim's Tool Supply
Tampa, FL

Industrial Distribution
THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

VOL. 79, NO. 10 OCTOBER 1990 A CAHNERS PUBLICATION

Jim Burzynski uses cable TV as a key marketing tool.

Cover photography by John Petrey

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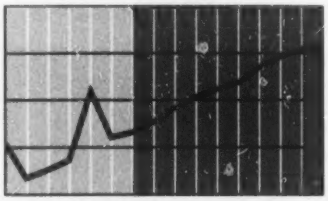

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CONSTRUCTION MARKET

Boom and Gloom

It's been the best of times and the worst of times for construction distributors. And now as STAFDA members head toward their annual convention, the specter of a national recession continues to linger.

By Jack Keough, Editor-in-Chief, and Doug Harper, Contributing Editor

If you were to use one word to describe the construction market in 1990, that word would be disparity. In some parts of the country, particularly in the West and Northwest, business is strong. But in the Northeast, the construction industry is hurting badly.

Let's take a look at what happened this year. January was an exceptionally strong month for home building and February was the best month ever for non-residential construction after adjusting for inflation and seasonal trends.

All signs indicated an excellent year for construction. But then the economy began unraveling as housing starts plummeted. Builders couldn't obtain construction financing due to lending restrictions and demand slackened as a sluggish economy increased customer caution.

The simple fact is that it's been a strange year for manufacturers and distributors serving the construction market.

FLUCTUATING SALES

Robert E. Cannon, vice president/sales with Channellock, points out that tool sales have fluctuated wildly in the past year. "One month would be good and the next month would be soft and it just didn't seem to make any sense," he says.

Robert Brady, vice president of sales and marketing for American Tool Companies, agrees. "Everything is just so spotty around the country," he says. "There's no pattern to incoming orders. You'll have a good week, then a bad week and then orders come back up again. There's always going to be some areas of the country that are off a bit—5% or so—but this year those areas are down a lot further."

Brady specifically pointed to the Northeast as an example. The once booming region is suffering through a recession. In fact, the northeast's construction market hasn't been this weak since the 1982 recession. (See box)

Another area that has suffered sharp construction reversals is the District of Columbia. Victor Siegel, president of W.S. Jenks & Son, says that despite the massive expansion of the federal government in recent years, the construction industry is doing "terrible."

Siegel, whose company sells tools and machinery to contractors in the Washington, D.C., Maryland, West Virginia, and Delaware area says that many of the construction industry's problems are the result of deregulation of savings and loan institutions. "Financing for new development projects has become much harder to obtain since the savings and loan scandals," he says.

Regionally, distributors can take solace from the fact that there are still bright spots in certain sections of the country. Those hot spots include Seattle, Portland, Las Vegas and some inland areas of California.

"We've had three strong years here in the construction market," says Steve Van Meetren, owner of Addison Inc., a distributor headquartered in Las Vegas. "About 3,000 people move into our area per month, and they obviously need someplace to live. Land prices here are still pretty cheap. You can buy a house anywhere from $80,000 to $100,000."

Those people are drawn to Las Vegas because of the new hotels and casinos. "Some of these hotels need thousands of workers. So our economy is very good and it's fairly easy for people to find a job," he says.

Van Meetren is quick to point out that although sales are up, competition is becoming fierce, putting pressure on margins. "We used to have two hardware stores here. Now we have five. Other companies are also moving in from out of state."

Van Meetren also says that his branches serving Phoenix, AZ and Albuquerque, N. Mex. are seeing increased sales as those cities rebound after a downturn in the economy.

The Midwest is also seeing a strong growth in housing starts. At the current pace, Midwest starts should total just under 300,000 units, the highest level of new residential construction this region has seen since 1979.

Byron Zawaski, vice president of Arrow Equipment, a two-branch distributor headquartered in Chicago, says that the construction business in the windy city is "pretty good."

"We've been reading about the economy going bad but so far we haven't experienced it," he says. He adds, however, that his competitors are among those claiming hard times. Despite this, Zawaski says that companies are still building high rise office buildings and industrial plants.

In Charleston, S.C., Associated Industrial Supplies projects a 15 to 20% sales growth. "We've had a very good year," says Fred Rast, senior vice president of the distributorship and general manager of the Charleston branch.

Rast points out his company is involved in commercial building expansion and roadwork. "We, of course, received a boost in business from Hurricane Hugo but even excluding that, the market has been very good for more than a year," he says.

In Denver, Colo., Mark F. Salvato, vice president with Western Fasteners Inc., an eight branch distributor, characterizes the Colorado construction industry as one of "measured improvement."

He says there has been significant growth in the construction of new facilities for high tech companies. "We feel fairly confident that now we have something that we can live with and move on from where we are," he adds.

ANOTHER OUTLOOK

On the non-residential side, business nationwide is also showing a disparity. Many areas of the country are discovering a surplus of commercial space. Even cities like New York, where office building occupancy rates routinely run at 98% are experiencing trouble renting new buildings.

Michael L. Convey, senior vice president/sales with Black & Decker notes that non-residential construction, one of the company's mainstays, will be a challenge over the next year.

But like his colleagues at other tool companies, he stresses "that it all depends on geography. If you go to the Northeast, construction is in some trouble. On the other hand we see rejuvenation in the Southwest, and the Midwest is strong. The West Coast has been strong and we see that continuing."

Nationwide, Cahners Economics forecasts non-residential building markets to be weaker than residential markets. Total commercial, industrial and institutional spending should total $134.1 billion, 3.6% above the 1989 levels. Gains should average about 6.5% annually over the next two years.

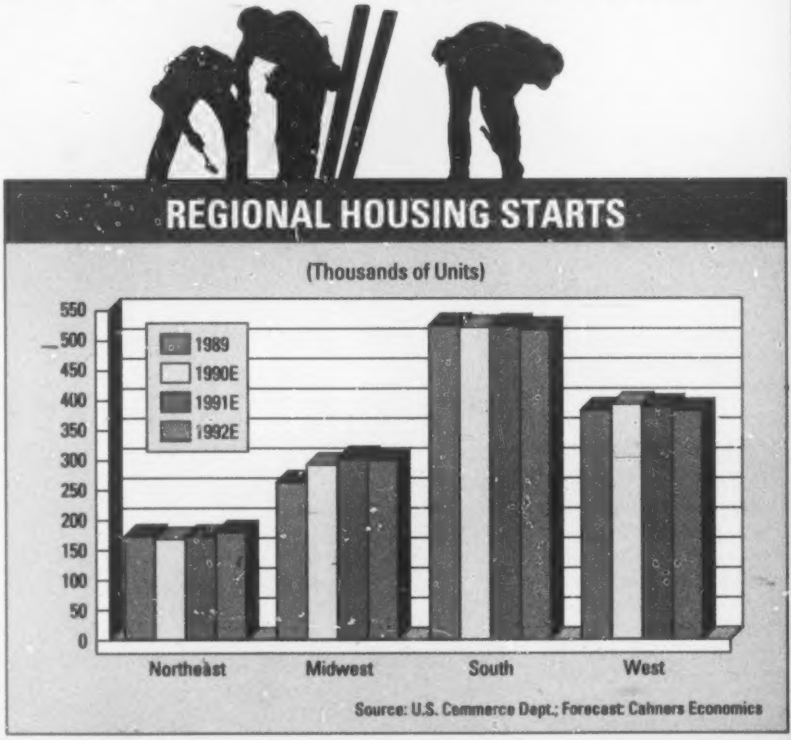
The office sector is by far the weakest among the building types in the non-residential market. Through April, the value of office building construction slipped more than 10% behind last year. The weakest sector during 1989, the group that includes retail buildings, shopping malls and service establishments has recently shown signs of bouncing back, although slowly.

Spending on new office building construction should fall by 6.7% this year. Don Kanz, president of Southern Staple Supply in Dallas, says that commercial construction is "flat to dead" in his city. While he reports that some office towers completed years ago still remain totally empty in the "Big 'D'."

Likewise, Robert A. Wesche, president of the Wesche Company in Tulsa, Okla., says that after a flurry of construction the past several years, Tulsa has a surplus of office and hotel space which has depressed the construction industry.

Home remodeling is helping to fill some of the listless construction market. Jerry Ryder, vice president of marketing for the Skil Corp. points out that alterations and repairs are continuing strong, and that translates into strong use of quality, industrial power tools.

Through the first quarter of 1990, remodeling permits ran about 7% higher than last year's rate. Cahners forecasts remodeling at about 8% this year and 5.3% next year.



Source: U.S. Commerce Dept.; Forecast: Cahners Economics

CONSTRUCTION SPENDING

(Billions of Current $)

	Actual	Forecast			Annual % Change			
	1989	1990	1991	1992	'89/88	'90/89	'91/90	'92/91
Total	356.7	373.8	397.2	417.8	+1.8	+4.8	+6.3	+5.2
Res.	137.8	145.9	156.5	164.2	−0.8	+5.8	+7.3	+5.0
Nonres.	129.4	134.1	143.2	152.3	+3.9	+3.6	+6.8	+6.3
Nonbldg.	89.5	93.9	97.5	103.1	+2.9	+4.9	+3.8	+4.0

Construction figures exclude improvements to existing buildings.

Source: U.S. Commerce Department; Forecast: Cahners Economics

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Boom and Gloom

Reconstruction markets vary widely from one area of the country to another. Of the 50 largest metropolitan markets for reconstruction work, Los Angeles, Baltimore and Philadelphia appear to be the strongest markets, each showing double-digit growth in permits issued for additions, alterations, and conversions.

Following slow growth in 1990, non-residential reconstruction work will grow at a more rapid rate in 1991 and 1992. 7.4% gain in 1991 followed by a 5.5% increase in 1992 is forecasted.

So while there are some bright signs ahead, the immediate prospects for construction distributors are poor. Here's why: New home construction of fell for the sixth consecutive month in July, cutting building activity to its weakest point in nearly 8 years.

Not since June-November1981 has home construction fallen for six consecutive months, according to Department of Commerce officials.

Even in such strong building areas as San Diego, CA, business is down. Keith Mantis, president of San Diego Fasteners, says that residential construction in his area has slowed considerably as a result of voter initiatives to limit growth.

But, he says, San Diego still has a "boom" mentality. "It may not be L.A. but neither is it St. Louis so when construction is off here, it's still better than most parts of the country," he adds.

Despite the gloomy outlook, distributors are optimistic.

"I think that in the spring of 1991 you'll see the construction industry start to turn around," says Larry Keith, president of Modesto Contractor Supply in Salida, CA. "Usually in this business, when you have a slowdown, it has the tendency to winnow out the marginal operators and business usually comes back stronger." Many distributors are hoping that Keith's predictions will prove correct. ☐

View from the Northeast

The Northeast's stagnant economy and an overbuilt, overpriced housing market is taking its toll. Through the first four months of 1990, the value of building permits for new residential construction dropped 30% in New England alone.

At 169,000 housing units, total housing starts in the Northeast this year will be 42% below the electrifying building pace of four years ago.

And commercial construction is doing no better. Jerry Penn, president of Boston Cartridge Tool Co., in Newton, MA estimates that commercial construction is off 35 to 40% over recent years.

"The vacancy rate is so high that many developers are going out of business," he says. On the plus side, Penn notes that Massachusetts just increased its gasoline tax by six cents a gallon, money which is earmarked for highway renovation. "If all goes well this will bring our area a fair amount of business," he points out.

Arthur A. Kaufman, vice president/purchasing for the Massachusetts-based Kaufman Co., also is optimistic. "For years we rested on our laurels because business was so good, but their business is still there. Tools are still wearing out and breaking and someone has to supply them," he says.

In New York City, there is a sense that the construction party is over. Kass Industrial Supply, located in the Bronx, is one of the region's major construction distributors serving areas as far distant as Atlantic City, Philadelphia and Connecticut. Alan Kass, the firm's vice president, notes that Donald Trump's recent financial troubles marked the end of the Atlantic City casino building boom.

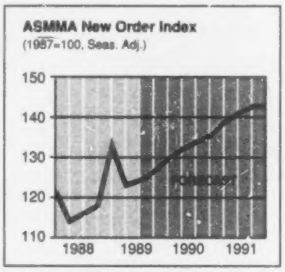
In New York City proper, Kass claims that the construction industry never fully recovered from the stock market's plunge on "Black Monday" in October 1987. "In my opinion, we are not 'maybe' in a recession, we are definitely in a heavy recession," Kass says.

BUSINESS REPORT

BY PAUL WATERS

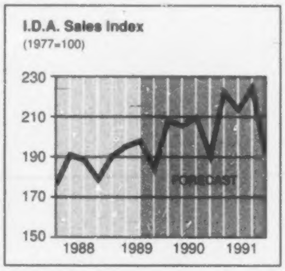
Production levels rising

Fourth Q output should be higher than year ago levels.



ASMMA New Order Index
(1987=100, Seas. Adj.)

Data source: ASMMA
Forecast source: Cahners Economics



I.D.A. Sales Index
(1977=100)

Data source: I.D.A.
Forecast source: Cahners Economics

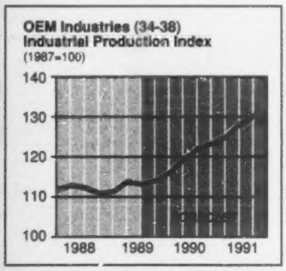
Output in manufacturing was flat in 1989, but has finally shown some signs of coming back to life. Boosted by strong exports and higher activity in materials and components, output is expected to be 1.6% above year-ago numbers in the third quarter. Fourth quarter production should log in 3.4% above levels in the fourth quarter 1989. Although growth for the year will total 1.6%, 1991 will see manufacturing output jump 5.4%. OEM production, while flat this year, will surge 6.3% on the strength of fabricated metals and non-electrical machinery (machine tools and computers). Barring a severe supply shock from events in the Middle East, these improvements will come despite the many negative comments about the economy trumpeted in the mass media.

Durable goods industrial production has been sluggish for over a year, with the slowdown falling in primary metals and automobiles. Although this sector's output will inch up 1.1% this year, look for a 5.6% surge in production during 1991.

Inventories have stayed at a manageable level throughout the durable goods slump. The manufacturing sector's inventory to shipments ratio has actually fallen since the beginning of the year, with recent numbers holding at about 1.5. So at current shipment levels, inventories would last for 1.5 months. As the economy gains momentum at the end of the year, look for this number to rise above 1.6. Firms will increase depleted stocks to meet higher demand in 1991.

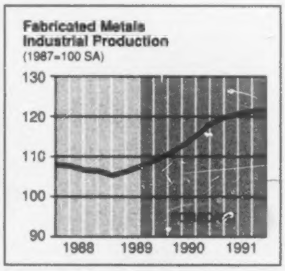
The OEM industries will experience the slowest growth of the durable goods sectors this year, inching up less than 1%. As interest rates start to slip, however, capital spending will pick up and the OEM sector will take off. Look for production to surge 6.3% next year.

Non-electrical machinery will be the best performing OEM sector this year. With strong computer production and machine tool shipments, output in this sector will rise 4.5%. Next year will see production surge 9.7% as businesses increase investment in equipment. Fabricated metals will be flat this year, but will surge 6.7% in 1991 and 5.7% in 1992. □



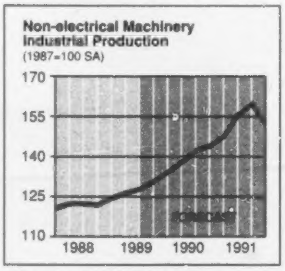
OEM Industries (34-38)
Industrial Production Index
(1987=100)

Data source: Federal Reserve Board
Forecast source: Cahners Economics



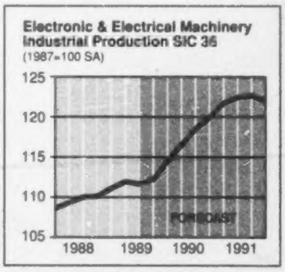
Fabricated Metals
Industrial Production
(1987=100 SA)

Data source: Federal Reserve Board
Forecast source: Cahners Economics



Non-electrical Machinery
Industrial Production
(1987=100 SA)

Data source: Federal Reserve Board
Forecast source: Cahners Economics



Electronic & Electrical Machinery
Industrial Production SIC 36
(1987=100 SA)

Data source: Federal Reserve Board
Forecast source: Cahners Economics

	SALES			RECEIVABLES	INVENTORY
(1977=100)	July 1990	July 1990	July '90 vs July '89 % change	July 1990 days	June 1990 % change
TOTAL	212.8	175.5	21.3	52.7	-0.6
EAST	178.0	161.7	10.1	49.7	-1.4
SOUTH	331.0	253.5	30.6	65.4	-0.3
CENTRAL	165.8	142.0	16.8	43.7	-0.6
WEST	214.0	186.5	8.9	36.0	0.3

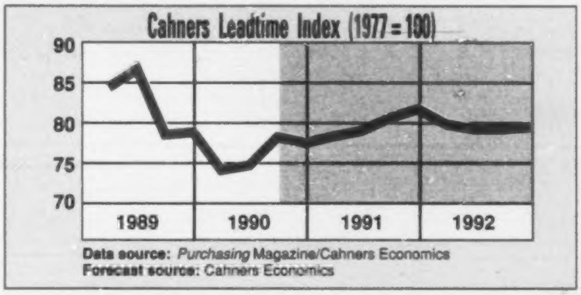
SOURCE: Industrial Distribution Assn.

SUPPLY OUTLOOK

BY PAUL WATERS

Manufacturing avoids recession

Economic growth will be slow, but steady.

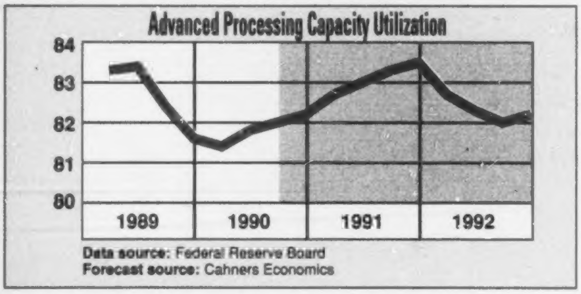


Data source: *Purchasing* Magazine/Cahners Economics
Forecast source: Cahners Economics

Supply conditions continue to favor buyers at this stage in the business cycle. The economy is presently in its slowest growth period, with firms and consumers regrouping for the coming expansion. While it may seem optimistic to call for expansion after the recent turbulence in oil markets, a close look at the economy shows why a recession is unlikely to arrive.

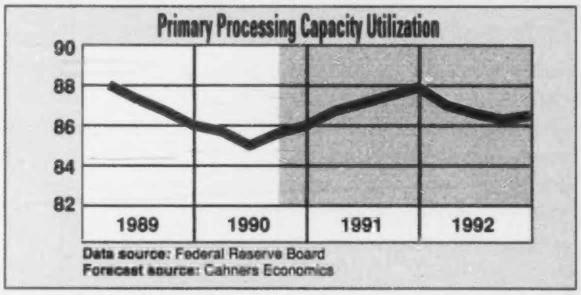
Leadtimes are a reliable indicator of supply pressures in the economy. Just before the oil shocks of 1973 and 1979, leadtimes were already uncomfortably long. Manufacturers were operating near maximum practical capacity, so suppliers could not get enough goods to the shelves to meet demand. Over-ordering was common practice and inventories swelled. When oil prices soared, strong demand made it easy for manufacturers and distributors to pass on costs, boosting inflation. In contrast, leadtimes now stand nearly 23% below their levels in 1977, reflecting how easy industrial materials can be sourced. Extremely careful inventory control has helped keep inventories in line with demand, reducing the need for over-ordering. Demand is weaker than during the previous oil shocks, so expect leadtimes to stay short; Cahners Leadtime Index of 125 Industrial Materials will be down 7.2% this year and will manage a 5.0% gain during next year's rebound.

Although capacity utilization is above its long-term average, it is still below its levels during 1973 and 1979. Capacity utilization for advanced processing industries (more than two-thirds of all manufacturing) reached 83.4% in early 1989 and has since declined steadily. Faced with room for production increases and slack demand, manufacturers are not able to pass on higher costs easily. This translates into more muted inflation hikes, even considering oil price jumps. ☐



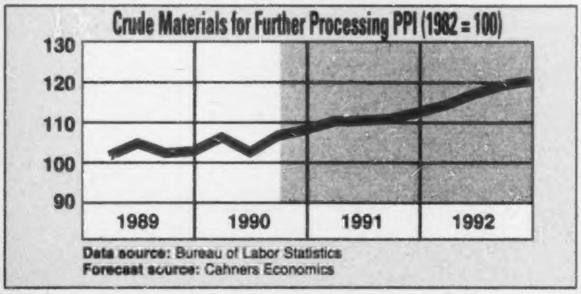
Data source: Federal Reserve Board
Forecast source: Cahners Economics

Operating rates for advanced processing industries (machinery, etc.) suggest there is room for output increases.



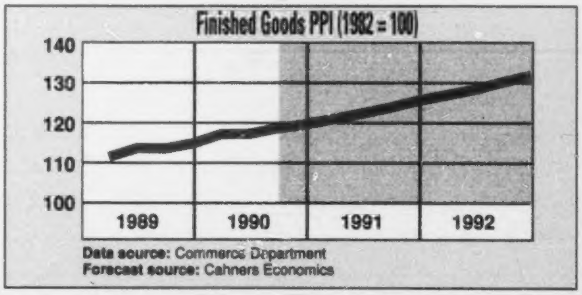
Data source: Federal Reserve Board
Forecast source: Cahners Economics

Capacity utilization for primary processing industries (fabricated metals, chemicals, etc.) will pick up in 1991.



Data source: Bureau of Labor Statistics
Forecast source: Cahners Economics

The producer price index for crude materials will stop its recent slide, boosted by skyrocketing petroleum prices.



Data source: Commerce Department
Forecast source: Cahners Economics

Finished goods producer prices should not take off, since slack demand will prevent firms from passing on higher costs.